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Group 4 Project Final Paper

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Executive Introduction:

The short-term rental industry has expanded quickly over the past decade, and it has changed how people think about traveling. Many travelers now want places that feel personal or connected to the neighborhood they are visiting instead of choosing a traditional hotel room. Airbnb is the main company that pushed this shift. Since it does not own property and only connects hosts and guests on its platform, Airbnb was able to move into new cities much faster than companies that rely on buildings and physical assets. The model fit what people were looking for at the time, so the platform spread easily and gained a lot of attention while the industry was still picking up.

As the market grew, Airbnb began to face a much different environment than the one it had entered. Travelers now compare the platform to several alternatives at the same time. They look at other rental platforms such as Vrbo and Booking, but they also look at hotels, which have added apartment-style options and improved their digital tools to give guests more flexibility. Cities have also started passing stricter rules because of concerns about housing availability and neighborhood conditions. These rules can directly cut Airbnb's supply in important markets. At the same time, guests have become more critical of cleaning fees, inconsistent quality, and misleading pricing. These issues affect how people think about using the digital platform again and influence whether they would rather choose a hotel or Airbnb's rivals instead.

Trying to understand Airbnb at this point means paying some attention to what is shifting around the company, but also looking at how the company actually runs day to day. The outside environment keeps changing and not always in one direction, since different cities pass different rules, and the traditional hotel side has been updating its own approach at the same time. Inside the company, the focus is on how the platform is built, how the spending lines up with the parts of the business that matter, and which systems the company depends on the most. When looking at these areas without trying to force them into a strict structure, it becomes easier to see which issue keeps coming up and ends up shaping the company's situation more than the others.

Industry Analysis: Global Short-Term Rental Industry

The global short-term rental industry consists of digital platforms that connect independent property owners with travelers who seek temporary lodging. These platforms differ fundamentally from hotel operators because they do not own or manage the physical assets that constitute their inventory. Their competitive position is instead defined by their ability to coordinate the decisions of hosts and guests across diverse local markets. Airbnb belongs within this industry because nearly all of its revenue and competitive activity arises from the facilitation of short-term stays across international markets.

The structure of this industry is shaped most directly by three interconnected dynamics. The first involves the substantial buyer power exercised by guests, which results from the high level of transparency available on digital platforms and from the breadth of substitutes that travelers consider during the booking process. The second involves the intensity of rivalry among platforms and between platforms and hotels, which is reinforced by rapid supply growth and shifting regulatory regimes. The third consists of the leverage held by hosts, since platforms do not control the underlying properties and must rely on the willingness of hosts to participate. These conditions together create an environment in which pricing power is limited, supply conditions are fluid, and firms must continually adjust to maintain participation on both sides of the marketplace. The STR industry has also begun to look more mature than it did in its early growth phase because of tighter regulations, slower supply expansion, and a smaller set of dominant players that now shape much of the competitive environment.

Buyer power is especially significant in this industry because consumers can compare accommodations quickly and with a high degree of information. Digital platforms provide extensive detail about price, location, amenities, and reviews, which allows travelers to evaluate many listings simultaneously. Zervas, Proserpio, and Byers demonstrate the implications of this transparency in their study of the Texas lodging market, showing that hotel prices were constrained when short-term rental supply expanded because travelers readily shifted toward lower-priced rental options (Zervas, Proserpio, and Byers). Research by Farronato and Fradkin similarly finds that the entry of new hosts increases consumer surplus by widening available choices and tightening pricing constraints on both rentals and hotels (Farronato and Fradkin). Hotels remain the strongest substitute for many travelers because they provide standardized service and predictable quality, which is particularly valued in large cities and in business travel. Dogru and Benitez Aurioles provide evidence that hotel performance declines as short-term rental listings grow, demonstrating that travelers routinely move between these segments depending on price and perceived value (Dogru and Benitez Aurioles). Additional substitutes such as hostels, guesthouses, serviced apartments, and extended stay hotels attract many of the same traveler segments and are evaluated within the same decision process. As a result, even modest changes in fees, ratings, or amenities can produce swift shifts in demand, leaving hosts and platforms with limited ability to influence prices independently of buyer expectations.

The competitive rivalry that characterizes this industry is likewise pronounced. Although a relatively small number of platforms accounts for a substantial share of global activity, with Airbnb, Booking, Vrbo, and Agoda Homes together comprising the clear majority of platform-mediated rentals, this degree of concentration does not produce a stable competitive environment (see Appendix C). While these platforms once disrupted hotels by offering a new kind of flexible supply, that early advantage has faded as both sides have adjusted and as regulation has narrowed the space in which the platforms can operate. Additionally, platforms must simultaneously attract hosts and buyers, which encourages continual revisions to pricing structures, search mechanisms, consumer protections, and loyalty offerings. Airbnb acknowledges in its public filings that the competitive environment evolves rapidly and requires persistent innovation to retain users ("Airbnb Form 10 K"). Rivalry extends beyond platforms to the hotel sector. Hotels have strengthened direct booking strategies, expanded apartment-style offerings, and intensified loyalty programs in response to competition from short-term rentals. At the local level, rivalry is even more immediate. In many markets, supply expanded more quickly than demand following the pandemic, prompting hosts to adjust nightly rates, cancellation terms, and amenities while monitoring competing listings in real time. Smaller regional competitors such as Plum Guide, Holidu, OYO, and Sonder introduce additional pressure by targeting particular traveler segments or property types. Regulatory interventions in cities such as New York further intensify rivalry by reducing the number of legal listings and forcing platforms and hosts to compete more aggressively for the remaining compliant properties.

Supplier power plays an integral role as well. Platforms do not own the properties that are part of their inventory and are therefore highly dependent on the voluntary participation of hosts. Airbnb itself notes this dependency in its financial filings, emphasizing that regulatory constraints or host dissatisfaction could materially reduce the quantity of available listings ("Airbnb Form 10 K"). Hosts frequently list properties on multiple platforms and can move inventory with minimal friction, which limits the ability of any single platform to impose terms unilaterally. The increasing professionalization of hosting strengthens this influence. Research by Chen, Li, and Wu finds that multi-property hosts account for a disproportionate share of bookings and offer differentiated inventory that platforms rely upon to meet diverse patterns of demand (Chen, Li, and Wu). These hosts respond actively to market conditions and may shift listings when economic incentives change. Buzzacchi and colleagues document this autonomy in their study of host responses during the pandemic, showing that hosts frequently adjusted pricing and cancellation strategies independently of platform guidance to stabilize revenue (Buzzacchi et al.). Regulatory restrictions heighten supplier power in markets where compliance reduces the number of eligible hosts, thereby increasing the relative importance of those who remain. Hosts may also withdraw listings or shift units to long-term rentals when market conditions become unfavorable, creating further uncertainty for platforms.

These conditions create an industry that is both highly competitive and unusually sensitive to shifts in regulation, supply, and demand. Buyers move easily among the many lodging options available to them, and their choices can shift quickly when prices or fees change. Hosts, who ultimately control the properties that make the industry possible, can enter, leave, or switch platforms with very little friction, which adds another layer of uncertainty for firms that rely on their participation. Platforms, therefore, face the ongoing challenge of maintaining credibility with both sides of the market while also adapting to local rulemaking that can alter the availability of legal listings almost overnight. In this setting, long-term advantage is difficult to secure, and performance is shaped by the combined pressure of strong buyer influence, persistent competitive rivalry, and the significant negotiating power held by suppliers. (Additional Five Forces framework outputs referenced in this section appear in Appendix A)

Internal Company Analysis

The pressures in this industry make it hard for platforms to compete on price alone, so Airbnb focuses on offering a more local and trust-based experience. This is what helps it stand out from hotels and other rental platforms. Airbnb's strategy is an asset-light, platform-based strategy focused on scaling globally by connecting hosts and guests through technology, trust systems, and local, authentic experiences. This is based on the belief that traveling can be a local experience, not an impersonal one like a hotel stay. The firm does not invest in buildings or property. Instead, it leverages an asset-light marketplace business model, connecting hosts with houses or rooms to customers looking for a place to stay. As a result, the firm can easily expand its operations across multiple countries. The firm's strategy hinges on building a culture of trust amongst its users, which is achieved through features like identity verification. The firm's brand identity does not revolve around the provision of 'lodging.' Instead, it focuses on giving users an experience of what it is like 'to live in a local place' across various neighborhoods. Technology such as price optimization, search, and anti-fraud systems keeps the platform efficient. However, reliance on hosts leads to variable quality, where even one poor experience can affect trust. The company also faces growing pushback from city authorities concerned with issues of housing stock, community pressure from tourism, and other unregulated short-term accommodations. As large hotel chains continue to adopt the 'local experience' approach, Airbnb's uniqueness is becoming increasingly difficult to sustain. Building on this strategic foundation, Airbnb's value chain shows how the company operationalizes its technology and trust-based model.

Once Airbnb's value chain is compared with both hotels and other STR platforms, its strategic choices become clearer. Hotels control the full guest experience through their property operations, on-site staff, and their own quality assurance systems. They can guarantee baseline service because they manage everything. Airbnb does not control the inventory and cannot impose the same level of consistency, so it has had to build an entire set of digital tools that make an unpredictable supply base feel usable. Standardized photography, ID verification, AirCover protections, host review systems, and detailed search filters all exist because these are the only levers Airbnb has to create a cohesive experience. Vrbo and Booking face different tradeoffs. Vrbo's concentration in vacation rentals means its hosts tend to be more professionalized and less exposed to intense city regulation. Booking mixes hotels with STRs, which gives it a balanced portfolio and protects it from the volatility that comes with relying almost entirely on peer-to-peer hosts. Airbnb's advantage comes from its ability to scale quickly across countries by pairing travelers with supply that did not previously exist in hotel networks, but its value chain is built on activities that must constantly work to hold that supply together.

Airbnb's position in the short-term rental industry depends on a set of internal resources and capabilities that determine how effectively the company competes. The most important of these involve the scale of its two-sided network, the sophistication of its trust and safety architecture, and the depth of its engineering and data functions. These resources are central because the platform cannot rely on physical ownership of the underlying inventory. Instead, the company must differentiate itself through the systems that make a large and diverse pool of independent hosts feel reliable enough for guests to use. The brand identity that Airbnb has built around local and authentic travel experiences also contributes to this system, since it encourages travelers to view the platform as distinct from hotel substitutes and from other rental intermediaries.

When these resources are evaluated through the VRIO framework, the global network of listings demonstrates significant value because it increases matching efficiency for both guests and hosts. It is rare at the scale Airbnb has achieved, although not entirely beyond the reach of competitors who have extensive supply in certain regions. The trust and safety systems are also valuable since they reduce risk for both sides of the market, and although specific elements can be copied by rivals, the overall system is difficult to recreate without large historical datasets, sustained investment in risk modeling, and organizational structures that support continuous refinement. Airbnb has those structures in place, which means the company is organized to benefit from the learning effects embedded in its algorithms and operational processes. The brand's emphasis on local experience continues to add value, but it is less rare than before as hotels and professionally managed rental firms adopt similar narratives (see Appendix E).

These resources create a competitive advantage for Airbnb, but the durability of this advantage is not guaranteed. The network effects and trust systems are the most defensible components because they depend on scale, accumulated data, and organizational learning that smaller competitors cannot match. However, sustainability is weakened by forces that sit outside the firm's direct control. Regulatory restrictions in major cities reduce the available supply, which lowers the value of the network itself, and the presence of other large platforms means that Airbnb does not maintain exclusive access to global short-term rental demand. The company is organized to use its strongest capabilities effectively, yet the pressures it faces arise in areas where the VRIO conditions are less stable, particularly the difficulty of ensuring consistent host quality and the challenge of maintaining reliable inventory across heavily regulated urban markets. These constraints shape the strategic issues that follow and help explain why Airbnb must confront questions about how its advantage can be protected as external conditions evolve.

The competitive advantage Airbnb has built rests on its ability to make this diverse supply feel safe, searchable, and reliable. The company has more global listings than its rivals, and that creates a density that makes the platform more useful for both sides of the market. The challenge is that the activities that support this advantage are vulnerable to forces outside the firm's control. Several cities have imposed regulations that directly cut into Airbnb's available inventory. New York's Local Law 18 removed much of the entire-home supply from the platform. Barcelona, Amsterdam, and other destinations continue to tighten rules. When supply contracts in major cities, the network effects weaken because guests come to expect a certain level of availability across popular markets (Additional figures and regulatory tables that support this section are included in Appendix B and D). Once that reliability drops, guests begin to rely more on hotels or competitors that have a steadier mix of professionally managed properties. This directly affects sustainability because Airbnb's model depends on maintaining a breadth of inventory across global markets.

Even with fraud detection teams, listing audits, and expanded customer support, the company cannot eliminate the inconsistencies that come from independent hosts. One disappointing stay can make a guest reconsider using Airbnb, especially when hotels remain a predictable fallback. This is not a problem the company can fully remove because it is tied to the structure of its model. The value chain choices that give Airbnb its scale also limit its ability to control what happens at the moment of consumption. That tension now shapes the firm's most important strategic questions. Airbnb has created real differentiation by offering a local, decentralized experience that substitutes cannot easily match, and the firm continues to invest in the systems that make this experience possible. The sustainability of that position depends on how well these trust systems hold up as regulations tighten, as expectations rise, and as rival platforms strengthen their own hybrid models. These pressures form the backdrop for the strategic issues that follow and explain why the company must now think carefully about how its advantage can be protected rather than assumed.

Key Strategic Problem Statement

Airbnb faces three primary problems that together destabilize the platform. The first is the declining host retention and weakening supply. Second is the erosion of guest trust and perceived value. The third is the intensifying regulatory pressures that have occurred in global markets. These problems reinforce and contribute to one another, creating a negative cycle that threatens the company. Namely, it threatens its ability to maintain reliable inventory, competitive pricing, and strong network effects. What makes these problems especially problematic and challenging is that they all converge on the same structural vulnerability. This vulnerability is the fact that Airbnb cannot function without a stable base of hosts that provide inventory voluntarily.

The first and most fundamental problem is declining host retention and fragile supply. Airbnb's supply instability has become increasingly persistent and measurable. Platforms such as AirDNA have reported listings within major markets declining by 10-12% year-over-year. This indicates supply contraction isn't just confined to specific isolated regions but is rather across the country. Another study done by Lighthouse reports that only one-third of hosts will remain with properties listed after five years, demonstrating that hosting isn't becoming a stable and enduring activity for most participants.

This instability has been reinforced by volatile earnings. As reported by Summer OS in 2025, Revenue per listing has been reduced by 34% nationally and up to 50% in saturated metros. iGMS supports this claim by reporting comparable 50% revenue drops in multiple cities across the country, namely Phoenix and Austin. Additionally, the occupancy rate (the percentage of nights a listing is booked out of total nights available) has fallen from 57% to 50%. This means that hosts are relying on fewer nights to cover the rising costs such as supplies, cleaning, utilities, and platform fees. Recently, the host-only fees have risen from 14% to 15.5% which worsens the already tight margins of Airbnb hosts. Since Airbnb is asset-light and doesn't actually own the real estate, discouraging hosts from listing on their platform and losing a listing directly weakens the search density on the platform. In doing so, that also worsens the booking reliability and price competitiveness. As these listings disappear, the users on the other side of the platform will face fewer choices and elevated prices, which lowers incentives for platform use. Additionally, it accelerates host dissatisfaction across the platform. To summarize, this has become a concerning and recurring cycle where unstable earnings push hosts out and shrink supply. In doing so, price volatility increases and guests become more frustrated, further reducing demand. On top of this, no other close competitor is affected as severely by supply fragility as Airbnb because none relies as exclusively on voluntary and decentralized inventory.

The second problem is declining guest trust and weakening perceived value. Airbnb's brand no longer aligns with guest perceptions. The brand was built on authenticity, affordability, and a unique experience. However, the gap between this original promise and guest perceptions has widened. Morning Consult ran a study in 2024 demonstrating that travelers increasingly describe the platform as "expensive", "unreliable," and "commercialized". This reflects not just individual dissatisfaction but a greater shift in cultural narrative surrounding the platform. Despite the average global rating of over 4.75, there's been a significant rise in operational complaints. This includes increases in cleaning fees, unclear expectations, unexpected check-in procedures, and surprise rules. Overall, these have contributed to a perceived deceptive pricing and also suggest that the rating system may mask underlying friction. Axios reported that 48% of user costs in Atlanta come from fees alone.

Overall, this trend has created a bad perception that the platform charges hotel-level pricing without offering the guarantees that a hotel can. At the same time, hotels have modernized, now offering apartment-style rooms with flexible cancellations, digital check-in, kitchens, and private workspaces. This has closed the gap in differentiation between hotels and Airbnb, and as a result, the company no longer benefits from being an obvious value alternative. There are also no switching costs for travelers, as a guest can instantly compare hotels, VRBO, Booking.com, and Airbnb within seconds. Interestingly, academic research from Zervas, Proserpio, and Byers also confirms that when Airbnb prices ris,e guests will quickly switch to hotels or direct competitors, causing significant declines in host occupancy. As this happens, Airbnb's listings accumulate fewer reviews. This causes them to fall in search ranking and become less competitive, therefore driving down earnings. For Airbnb, since its algorithm is so focused on rewarding fresh and consistent engagement, the review velocity is especially damaging. Therefore, declining guest trust contributes to lower bookings. This lowers host earnings and increases host churn rate, demonstrating the link between demand-side problems and Airbnb's broader supply instability.

The third major problem is intensifying regulatory pressure, particularly in Airbnb's most valuable global markets. Governments have shifted from a friendlier stance to a much more enforcement-heavy approach to Airbnb. This shift is primarily due to housing affordability issues, tourism pressure, and neighborhood disruption. In important European STR cities like Paris, where 44 out of 10000 houses are listed, Lisbon, where 30 are, Florence, and Venic,e the hosts must navigate extremely strict requirements. The requirements include, but are not limited to, 30 to 120 nightcaps per year and local permits. When similar restrictions were implemented in cities across the U.S., Los Angeles saw a 44% drop in legally registered STR units. A more dramatic shift was in New York after Local Law 18 slashed listings in the city from 22,000 to 8,841, clearing out two-thirds of the market overnight. More cities plan to follow similar regulatory actions, such as Barcelona, which wants to eliminate over 10,000 STR units by 2028.

Regulatory tightening in these cities has had far-reaching effects on the global performance of Airbnb, as EMEA produced 201 million booked nights in 2024. It's not just the regulatory constraints themselves but the complexity of them as well. Many hosts will exit due to fear or penalty, as the paperwork is confusing and overwhelming. This burden is especially heavy since Airbnb hosts do this on the side and aren't professional hospitality managers. Because of this, we see direct correlations between host participation declines as compliance complexity and barriers increase. Again, this ends up increasing prices, lowering availability, and amplifying frustration on both sides: guest and host.

The three problems work together to form a tight system where the weak host retention undermines the guest experience and the declining guest trust reduces the bookings and therefore earnings for the host. The regulatory constraints are nothing but an accelerator in this process, making more hosts leave promptly. Therefore, the most important issue is solving host retention and stabilizing Airbnb's value proposition. This will mitigate the downstream effects on demand volatility and legal constraints (See Appendix F for Secondary Problems and Recommendations).

Strategic Recommendation

Airbnb should launch a coordinated set of infrastructure level interventions to break the negative info loop that has been driving hosts off the platform. These interventions will be a part of a larger system called the "Host Stability System". This system will resolve the three core problems by stabilizing host earnings, simplifying the process to achieve regulatory compliance and strengthening the reliability of the platform. By focusing on providing both a predictable income for hosts and a standardized quality experience for guests, Airbnb will be able to rebuild its stability, therefore providing a foundation for long-term growth.

The first component of the Host Stability System is earnings stabilization. This addresses the primary reason for hosts exiting: unpredictable and declining incomes. With the average occupancy rate down from 57% to 50%, the revenue-per-listing down by 34-50% depending on what city you're in and the increase in fees (14-15.5%), hosts can no longer take Airbnb as a reliable income stream and must seek out better options. To counter this Airbnb should implement a dynamic take-rate adjustment. This will temporarily reduce host fees in markets that are experiencing reasonable downturns, demand volatility or regulatory shocks. The fee reductions in these targeted locations would prevent collapse during difficult periods therefore preserving the density needed for strong search results and competitive pricing. Because Airbnb generated $11.1B in revenue while only having $8.54B in costs last year it has the financial capacity to spare resources to prioritize sustained supply over take-rate optimization.

A complementary host loyalty program should be put in place as well to compliment these adjustments. This will include tiered rewards, reduced service fees, accelerated payouts, priority customer support, visibility boosts and early access to product improvements for hosts that have long lasting high performance on the platform. This would help increase retention for the primary hosts that drive much of the platform's volume. In specific multi-property hosts would receive structured and escalating incentives that encourage reliability and long-term participation. This component of the system will turn hosts from a side activity into a stable and professionally supported endeavor.

The second component is automated compliance infrastructure that will directly address the new regulations put in place requiring hosts to attain licenses and go through other hurdles. This will simplify the process for any host to be able to post listings in any market. Compliance challenges, not demand issues, is one of the top reasons many hosts exit top markets. A great example of this is in New York where after imposing regulations that shocked the market listings shot down nearly 66% overnight. To combat this Airbnb should integrate an end-to-end compliance tool in its host dashboard. This will automate license tracking, renewal reminders, pre-filled city-specific forms, document upload portals and real-time submission status. The feature of this component should be a built data-sharing pipeline with municipal governments that will allow required information to be transmitted automatically. This required information includes registration numbers, booking totals, occupancy reports among others.

By centralizing compliance Airbnb can turn a major barrier into a platform advantage over direct competitors. In shielding hosts from confusion this will reduce churn in high-value markets like Paris, Amsterdam, New York and Los Angeles. Hotels currently have dedicated compliance teams, giving them an advantage. If Airbnb were to mirror that capability at scale then individual hosts will not be forced to navigate complex legal systems alone and will have a compliance team built into their dashboard.

The third component addresses the declining guest trust and demand volatility that undermines host earnings in certain markets: Phoenix, Atlanta, New York, Los Angeles. Guests have been increasingly citing the inconsistent quality and unclear pricing for reasons to go with hotels. Airbnb should deploy a predictive quality scoring algorithm that is trained on historical stay outcomes, complaint patterns, cancellation histories and review consistency. These scores will elevate and reward the hosts that are most reliable and of the highest quality while flagging those at risk of poor guest experience. This will reduce surprises and increase booking confidence. In addition the platform should include all-in pricing much earlier in the search experience to prevent users from being shocked by final prices. This will also address the widespread perception of hidden fees as reported in Axio's finding that 48% of Atlanta and Phoenix among other cities' stay costs are fees. Between the newly calibrated review system and the price transparency Airbnb will create a more honest and actionable signal for hosts. By improving guest trust and booking reliability this will strengthen the trust loop that generates greater demand and consistent revenue for hosts.

In summary the Host Stability System will transform the problems surrounding poor host retention into points of leverage. By stabilizing earnings hosts will continue to return to the platform for steady income. Meanwhile the simplified compliance will mitigate against large supply losses in high-value cities. The strengthened reliability of the platform will increase the demand and reduce its volatility. These three components reinforce one another with predictable earnings increasing willingness to remain compliant and better compliance increasing listing density. With increased density this will improve pricing and guest satisfaction which therefore gives hosts reliable bookings that will keep them engaged. In building this system Airbnb can restore the network effects that once fueled its rapid growth and keep itself positioned for sustained success in an increasingly regulated and competitive marketplace.

Appendix A

Porter's Five Forces: Short-term Rental Industry

Scope of Competition: Global Scale

Threat of New Entrants: Moderate

Platform businesses like Airbnb have relatively low barriers to entry, such as low capital requirements, since rivals can build similar digital platforms and others do not have to own physical assets in order to enter the industry. Additionally, travelers or customers can easily switch from one platform to a new one, leading to low switching costs. Booking is the same across all platforms, and customers do not lose anything by trying out a new one, hence making the market open for new entrants. However, Airbnb benefits from strong network effects and global brand recognition, which create significant competitive advantages. Studies show that while niche competitors exist, such as Vrbo or Booking.com, incumbents and new entrants struggle to match Airbnb's scale and trust infrastructure (Chang, 2020).

Bargaining Power of Suppliers (Hosts): High

Hosts hold a decent amount of influence over the platforms because the platforms do not control the actual housing inventory. Every listing is owned by someone who can choose where and when to make it available, and platforms must constantly work to keep these hosts engaged. Airbnb's SEC filings openly recognize this dependency, pointing to the risk that regulatory friction or dissatisfaction among hosts could lead them to reduce supply (Airbnb Form 10-K). Peer hosts adjust their participation quickly in response to changes in demand, entering the market when prices are attractive and withdrawing when conditions worsen. That flexibility limits the platforms' ability to set rigid terms because hosts can simply shift their listings between Airbnb, Vrbo, and Booking.com depending on which site offers the most appealing economics. The rise of professionalized hosts enhances this dynamic even further. Many now operate full portfolios of properties and behave more like commercial suppliers than individual homeowners. Research from Chen, Li, and Wu shows that these operators consistently attract a higher share of bookings and often provide differentiated inventory, which makes them valuable to platforms that rely on diverse, high-quality supply. When one of these multi-property hosts threatens to move their listings elsewhere, the platform feels that pressure immediately. Buzzacchi and coauthors' work on host behavior during the pandemic illustrates this professionalization clearly, showing how hosts actively altered pricing strategies and cancellation terms to protect their revenue rather than relying on the platform to guide them. Strict regulatory environments also increase supplier power because compliance reduces the number of legal listings. All of these conditions point to a market where suppliers have significant leverage and platforms must continually compete for their loyalty.

Bargaining Power of Buyers (Travelers/Guests): High

Guests don't bargain with hosts directly, but they still shape prices because switching between options is easy. Someone looking for a place to stay can scroll through Airbnb listings and check other booking sites, or decide to book a hotel instead, all within a few minutes. This forces hosts to pay close attention to price and quality since small mistakes can cause interest to drop. Research study by Zervas, Proserpi, and Byers found that when Airbnb grew in Texas, hotels could not raise their rates as much during busy seasons because travellers moved to cheaper short-term rentals. There is no negotiation happening, but the impact on prices is evident. Guests also have an unusual amount of information compared to many other markets. On Airbnb or Booking, they can see every fee, every review, and every amenity upfront, and they can sort through options faster than they could in almost any traditional accommodation market. Research by Farronato and Fradkin finds that the constant entry of new hosts expands capacity and raises consumer surplus, meaning guests have more choice and more ability to avoid overpriced options. Hosts who charge too much or receive poor reviews usually see it show up very quickly in lower occupancy, which again gives travelers an indirect but very real power. Another important factor is the number of substitute guests they have. Hotels are the most obvious alternative and remain extremely competitive, and many chains have added larger or more apartment-style rooms that appeal to travellers who would otherwise choose a short-term rental. Studies such as those by Dogru and Benítez Aurioles show that when Airbnb listings increase in a city, hotel occupancy and revenue often fall, which is a clear sign that travellers are willing to jump back and forth between different types of accommodation. Beyond hotels, there are also serviced apartments, hostels, stays with friends or family, or simply not traveling if prices seem unreasonable. All of these possibilities weaken hosts' ability to raise rates. Price sensitivity is also evident in industry data. When average daily rates climb too fast, occupancy usually drops, and guests seem more than willing to switch to cheaper listings or move over to hotels. Due to all of this happening so quickly and openly on digital platforms, hosts rarely have the luxury of pushing prices far above what travelers think is fair. For these reasons, buyer power really does land on the high side. Guests are not powerful because they negotiate, but because they can switch instantly, they can see everything in front of them, and they have no shortage of alternatives. That combination gives them more influence over prices and quality than it might seem at first glance.

Threat of Substitutes: High

The threat of substitutes is high because people have plenty of other ways to get a place to stay, and many of those options feel more reliable or more practical in different situations. Hotels still pull a huge share of travelers because the experience is predictable. You know what the room will look like, what services are available, and what kind of treatment you are going to get, which removes a lot of the uncertainty that comes with staying in a stranger's home. This matters most in larger cities and for business trips, where consistency tends to outweigh the appeal of "local" or "unique." On the opposite end, hostels and low-priced guesthouses draw budget travelers who only care about having a bed and a safe place to sleep. The hostel market is not small either. It was worth more than seven billion dollars in 2023 and is projected to keep growing into the next decade. For longer stays, serviced apartments and extended-stay hotels can also pull customers away because they often keep prices steady and cut out extra fees. All of these options solve the same basic need, and in many cases, they either feel more dependable or more cost-efficient, so their presence keeps steady pressure on short-term rentals.

The influence of these substitutes gets even stronger because switching costs are basically nonexistent. People search across hotels, hostels, and rentals in the same process and move between them without losing anything. A lot of travelers already compare both categories before booking, which shows they do not treat them as separate industries but simply as options for the same trip. When switching is that easy, the decision usually depends on whichever choice feels like the better deal that day. A hotel might win because the guest wants a guaranteed experience. A hostel might win because the price is too good to ignore. A long-stay hotel might win because the traveler does not want to bother with cleaning fees and unpredictable rules. None of these choices requires any commitment, so even small frustrations with short-term rentals can push people toward substitutes. The combination of low switching costs, better value in some alternatives, and a clear difference in perceived reliability keeps the overall substitute threat high and limits how much power platforms like Airbnb can exercise over travelers' choices.

Industry Rivalry: High and Intense

Rivalry in the short-term rental industry is intense and plays out across several layers of competition. At the platform level, the market looks like an oligopoly, with Airbnb, Booking.com and Expedia, or Vrbo capturing a large majority of global revenue. The top four firms together hold about 74 percent of global platform share, with Airbnb at 44 percent, Booking. com's Homes and Apartments segment at 18 percent, Vrbo at 9 percent, and Agoda Homes at 3 percent, based on Skift. However, this concentration does not translate into soft competition. These platforms fight vigorously over both hosts and guests. They adjust service fees, roll out new search and trust features, offer host protections and insurance, and also try to lock in users through loyalty tools and integrated ecosystems. The platform landscape has already gone through a shakeout in which many early peer-to-peer start-ups disappeared while established online travel agencies entered the segment, so remaining players feel constant pressure to innovate. Airbnb itself describes the competitive environment as highly competitive and rapidly evolving in its public filings. Rivalry is just as strong between short-term rentals and hotels. Industry data and commentary from firms such as AirDNA show hotels doubling down on loyalty programmes and direct booking, while short-term rentals experiment with new property types and services, all in pursuit of the same traveller. At the local level, rivalry can be even more brutal. In many markets, supply growth after the COVID-19 period outpaced demand, which pushed down occupancy and forced hosts to compete more aggressively on price, amenities, and uniqueness. Regulatory shocks such as strict local laws in New York City can rapidly shrink the pool of legal listings, intensifying competition among those that remain, especially among professional multi-listing hosts who have fixed costs to cover. During major shocks, hosts show very different outcomes, with some able to adapt and others exiting altogether, which indicates thin margins and limited room for error. Since competitors constantly monitor each other's prices in real time and both regulatory and demand conditions continue to shift, industry rivalry in short-term rentals is best characterised as intense and multidimensional. Additionally, smaller regional competitors such as Plum Guide, Holidu, OYO, and Sonder add more pressure in specific markets by targeting certain types of listings or travelers. The global short-term rental market is growing, valued at 134.51 billion dollars in 2024 and projected to reach 256.31 billion dollars by 2030 with an annual growth of 11.4 percent, according to Grand View Research, but this growth does not exactly reduce rivalry. The high-value listings, peak travel dates, and desirable neighborhoods remain limited, so platforms continue to fight aggressively for the same limited supply. The presence of several strong competitors, switching costs of almost zero, limited legal supply in important cities, and minute product differentiation make the rivalry in the short-term rental industry high.

Appendix B

PESTEL Analysis

Political: Government policies like changes designed to control the spread of the short-term renting business on websites like Airbnb operating in cities such as New York City, Barcelona, or Paris; restrictions on short-term licenses in areas like Palm Springs; and the imposition of hotel-style taxes create direct entry barriers that form one of Porter's Five Forces. By the imposition of government control and taxes on the business, the cost of participation and difficulty of entry increase significantly on the short-term renting platform. Additionally, government-related issues like restrictions on travel due to tensions across the world between nations of different continents, like the Middle East region, reduce the power of the air travel community of buyers because the number of visitors using the platform reduces due to the imposed restrictions. Overall, these political factors influence Airbnb's competitive environment by raising entry barriers, shifting demand patterns, and altering buyer behavior within Porter's Five Forces framework.

Economic: The Global economy plays a huge role in Airbnb's performance and demand. When the economy is doing well and people travel more often, bookings go up. But when the economy is bad or there is a crisis like the COVID-19 pandemic, the company's model shows its weaknesses. Airbnb's growth has been criticized for making homes harder to find and prices higher in major locations, which might lead to more regulations. Inflation and interest rates going up also affect both sides of Airbnb's marketplace. Guests may cut down on travel that isn't necessary, while hosts may depend more on Airbnb revenue to help them with their bills. Airbnb may be a reliable source of extra income for families during downturns, depending on location. Additionally, during COVID-19, when hotels faced alarmingly low utilization rates, many regulators instituted additional restrictions on Airbnb to help the industry.

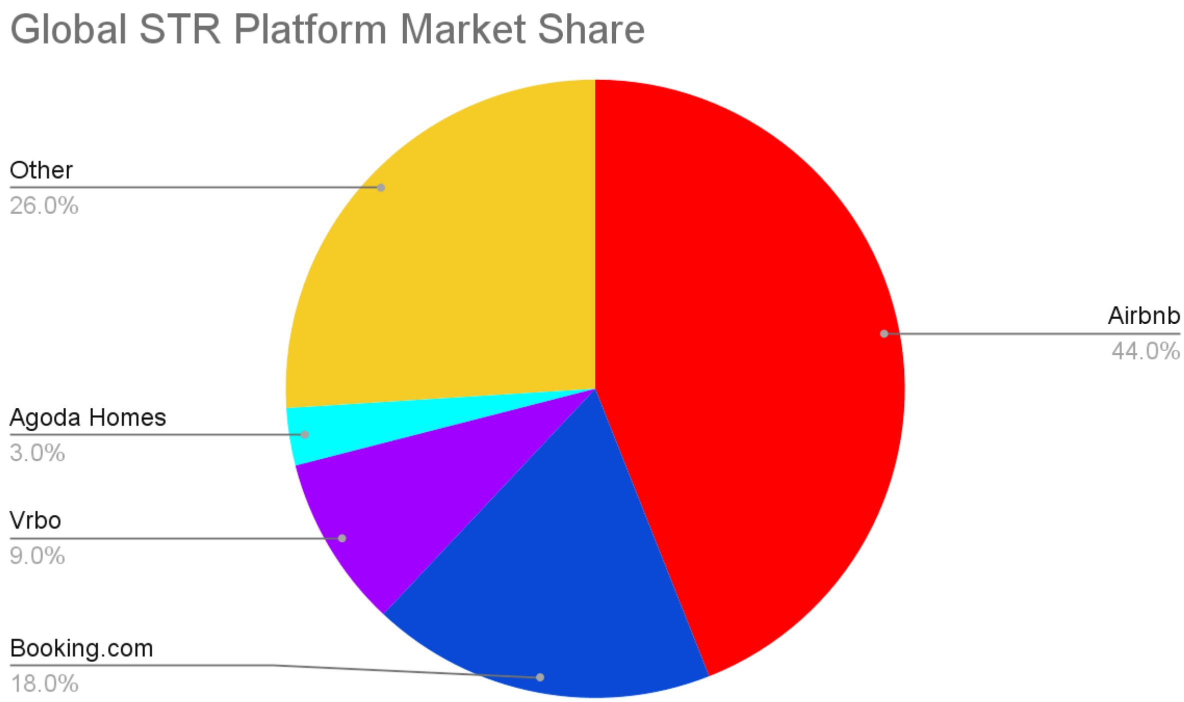
Social: Airbnb benefits significantly from shifting social trends, particularly the shift toward more personalized and authentic travel experiences. Younger people like staying in unique local places like cabins in the mountains instead of regular hotel rooms, which fits with Airbnb's corporate concept of "belong anywhere." There is also a need for longer-term stays since more people are working from home and using Airbnb for long-term rentals. But in many places, people don't like Airbnb because they think it disturbs neighborhoods, raises rents, and brings in short-term guests. Also, trust and safety issues like discrimination, fraud, or dangerous listings are still big societal problems that might hurt Airbnb's image if they aren't handled appropriately.

Technological: Airbnb's platform relies largely on new technologies that are always being developed. The business employs AI and machine learning to find the best prices, spot fraud, and provide visitors with tailored suggestions. Most people now book their trips using their cellphones; therefore, the firm spends a lot of money on making sure that the mobile app works well. Integration with smart house technology like keyless locks and automatic check-in systems also makes things easier for both homeowners and visitors. But depending on technology may sometimes be dangerous. Cybersecurity and data privacy are really important now since a big breach might hurt Airbnb's reputation and make customers less likely to trust it.

Environmental: Tourists' growing focus on sustainability drives demand for eco-friendly stays, pushing hosts to be more responsible and giving Airbnb a chance to highlight greener options. However, some destinations blame Airbnb for worsening overtourism, straining locals and ecosystems. Climate change and extreme weather also threaten travel safety and host properties.

Legal: Airbnb's biggest problem may be legal issues. In many areas, zoning laws and housing standards make it hard or impossible to rent out a home for a short time. These requirements sometimes lead to continuing legal fights. Many additional regulatory actions were put in place across the United States and abroad to counter alarmingly low utilization rates in hotels during COVID-19. An example of this is in Portland, where the owner of the property must prove that they are a resident in the home for 270 days out of the year before listing their primary residence on Airbnb. Other large metropolitan areas like San Francisco, New York, and Arlington, Virginia, have similar regulations in place. Liability and insurance issues also make things more difficult for Airbnb, which has come up with solutions like "AirCover" to safeguard hosts and visitors. There are still debates about employment legislation, particularly regarding whether hosts should be considered independent business owners or given additional safeguards. Airbnb also has to protect itself from fake listings and infringement of intellectual property, which means it needs to enforce tight rules. Airbnb has to be very flexible in order to keep its worldwide footprint because of these regulatory concerns.

Appendix C: STR Market Share



Appendix D

City	Regulation Summary	Impact on Supply
New York City	Local Law 18 with mandatory STR registration and bans on most entire home STRs	Massive drop in legal listings with thousands removed
Barcelona	Strict tourist flat licensing with heavy fines and aggressive enforcement	Significant decline in STR units, especially in central districts
Paris	Primary residence r120-nighta 120 night annual cap on entire home rentals	Reduces full home rentals and shifts supply toward primary residences
Palm Springs	STR licenses are capped at 20 percent of homes per neighborhood	Caps STR growth and stabilizes total listing volume

Portland	Host must live in the home at least 270 days per year, plus strict residency checks	Removes many non primary STR units and reduces eligible hosts
San Francisco	Mandatory STR registration of non-primary STRs with strong enforcement	Large reduction in vacation rentals and higher compliance
Arlington VA	Primary residence requirement with local STR licensing	Limits multi unit operators and restricts further expansion

https://www.fastcompany.com/90811166/airbnb-is-improving-safety-features-and-expanding-its-anti-party-technology

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2783662

Appendix E

VRIO Table: Airbnb's Trust and Safety Infrastructure

VRIO Category	Analysis
Valuable	One of the most valuable resources powering Airbnb is its trust and safety system because it is crucial to Airbnb's success as a marketplace. Airbnb's trust and safety system is composed of identity verification features, guest reviews and host reviews, safe payment features, fraud prevention software, risk scoring engines, and customer service tools to facilitate quick communication between guests and hosts. The trust and safety system makes transacting on Airbnb much safer for all users because these features give guests assurance on whether or not they will deal directly with the actual person or business they have booked accommodations from or with whom they transact business for other activities on Airbnb's platform. This is economically very valuable for several reasons: trust is one of the most crucial factors for any peer-to-peer marketplace because each platform is only as good as its users want it to be because having trust on peer markets facilitates higher use and boosts user confidence to transact on such markets because trust reduces apprehension associated with markets lacking any regulation and supervision to facilitate trust between market users to carry out market transactions.

Rare	Trust system of this magnitude is not very common because most of these platforms do not have the same level of reach and user concentration as Airbnb does around the world. Airbnb also contains reviews, identity verification, and reservation data for over two hundred countries (Bursztynsky). This is because Airbnb contains information collected for over a decade now for reviews, identity verification, and reservations for use on its trust system. This information is also diverse because most of it is collected from users from different cultures and geographical locations away from Airbnb's main market. This is rare because most of these systems do not have users with this kind of concentration or have not been operational for this long to gain all this information needed for trust verification among its systems to operate effectively. Other companies such as Vrbo and Booking have trust systems but lack this kind of reach and user participation level among others. Airbnb is also at the forefront of innovations such as trust host information, image verification, trust safety and region-specific background verification for guests, and trust reservation modeling.
Inimitable	The trust and safety system added by Airbnb is very hard to copy because it is based on path dependence processes, cumulative data, and institutional linkages. Firstly, it is very hard to copy because it is based on user habits developed over many years. It is very hard for its competitors to instantly have millions of reviews and user habits linked to identity-confirmed accounts all at once. This is very crucial for training user verification systems and user risk assessment systems. Secondly, its utility gets better with each use through network externalities. The more it is used, the better its user verification system becomes because of its effectiveness and success rates associated with user risk assessment prediction systems. This is also very hard to copy because of its self-reinforcing cycle (Codagnone & Martens). Airbnb's trust system is also associated with institutional linkages because it deals with agreements between Airbnb and cities or governments to share data for verification and maintenance of compliance norms. This takes several years to establish and is very hard to copy because of its institutional complexities associated with social complexities of user behavior and requirements to have high functionality and effectiveness associated with technological investments (Codagnone & Martens).
Organized	Airbnb's structure is very effective for leveraging its trust and safety infrastructure. It brings together engineering, data science, customer support, legal, and policy groups to preserve and enhance its trust and safety infrastructure. Airbnb also provides its guests and hosts with a central risk management team to analyze all transactions for safety and fraud-related concerns on a real-time basis. It also spends significant resources on machine learning capabilities to improve its pricing suggestions, ranking algorithms, and fraud prevention systems. Airbnb also provides its guests

	and hosts with its customer support department capable of solving any kind of dispute between hosts and guests at any point of time across different time zones around the world. Additionally, Airbnb's management and regulation team takes care of all its relationships with local governments and regulation bodies to make sure its verification and data processes comply with local regulations at all times.

Summary:

Airbnb's trust and safety system meets all requirements for being a VRIO resource because it is valuable, rare, not easily imitable, and leveraged by Airbnb to its advantage through its structure. Airbnb's trust and safety system is valuable because it secures trust for Airbnb and makes its platform safe for its users. It is rare because of its large scale and its massive number of users across geographical boundaries. It is difficult to imitate because its success is dependent on its large database and its network effects.

Appendix F

Secondary Strategic Problems

Strategic Problem	Why It Matters	Recommended Actions
1. Geographic Concentration and Uneven Regional Growth	Airbnb relies heavily on North America and EMEA for revenue, with more than 9.1 billion of the company's 11.1 billion dollars in 2024 coming from these two regions. These markets also carry the strictest regulations and the most political pressure. Any supply contraction or saturation in either region would immediately affect global reliability because other regions are not developed enough to offset the impact. Latin America and APAC are growing in nights booked but still contribute far less revenue than their tourism potential suggests, creating unnecessary concentration risk.	Provide expansion incentives in APAC and Latin America such as lower fees for new hosts, stronger visibility in search, and onboarding support. Build regulatory relationships early instead of reacting once rules are already in place. Develop regional product features such as local payment options, long-stay bundles, and language-specific support to increase adoption and retention.

2. Tension Between Professional Hosts and Casual Hosts	A rising share of bookings comes from professional multi-property hosts. They help with supply consistency but also create political backlash, especially in cities concerned about housing shortages. Casual hosts, who originally shaped Airbnb's brand, are leaving the platform at faster rates because they feel overshadowed, and this weakens the diversity and local character of listings. The imbalance reduces platform loyalty and increases the risk of regulation aimed at large operators.	Create a two-track host structure that separates professional operators from home-based hosts, with each group given different levels of support and different fee structures. Protect visibility for small hosts so their listings do not disappear under large portfolios. Introduce city-level caps or limits on professional portfolios where political pressure and housing concerns are high.

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