

## The Sharing Economy and the Impact of Airbnb

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## Introduction

Airbnb is an online travel marketplace that allows everyday people to find or provide short or long term housing for travelers. The company operates within the sharing economy which is a “socioeconomic system where connected individuals organize the distribution of excess capacity or resources sitting idle in exchange for a fee or other compensation among each other”<sup>1</sup>. Airbnb does not own property therefore the system relies entirely on the space a host offers to serve as the lodging for guests. The company was founded in 2008 as means for roommates Brian Chesky and Joe Gebbia to help pay the rent of their San Francisco loft. The online platform now has over 3 million listings in 65,000 cities and 191 countries.<sup>2</sup> The premise of the service is that when a guest requests to stay in a host’s home they are charged a fee of anywhere from 6-12% and the host a fee of 3%.<sup>3</sup> Guests are able to specify whether they prefer an entire home or a shared space. Due to the ever expanding footprint of the Airbnb platform there are significant implications not only to the hotel industry but also the travel frequency of users along with the impact on hosts and the cities that people are traveling. This research will explore the impact of Airbnb from entrepreneurial, managerial and marketing perspectives and how Airbnb helps perpetuate the sharing economy through acts of collaborative consumption.

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<sup>1</sup> (Tussyadiah 2016)

<sup>2</sup> (Airbnb n.d.)

<sup>3</sup> (Airbnb n.d.)

In 2007 roommates Joe Gebbia and Brian Chesky, whom were also schooled designers, couldn't afford to pay rent so they decided to rent out a spare room in their San Francisco loft. The pair quickly realized they could easily supplement their income during peak periods of travel to a city with notoriously high hotel prices. The two eventually launched a very scaled-down version of what would become Airbnb that relied heavily on Craigslist as a vehicle to post housing advertisements.<sup>4</sup> In 2008, as they continued to grow and employ additional hosts in both New York and Denver, the founders, out of their own resources and unable to get external funding, raised additional capital. By using their graphic design skills to buy and repackage generic brand cereal they were able to raise additional money. Their goal was to offer hosts a food item to pass along to their paying guests so they came up with a fictitious brand called "Obama O's", "The breakfast of change" and a Republican version, "Captain McCain's", "A maverick in every bite".<sup>5</sup> The cereal sold out almost immediately and they were able to raise over \$100,000 in new capital.<sup>6</sup> The creativity of the founders was quickly noticed by Silicon Valley Venture Capitalists and later the exclusive startup known as Y Combinator, startup university which greatly helped propel the new home sharing platform to success.

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<sup>4</sup> (Gallagher, The Airbnb Story 2017)

<sup>5</sup> (Gallagher, The Airbnb Story 2017)

<sup>6</sup> (Gallagher, The Airbnb Story 2017)

The success of the company through the early years was heavily dependent on word of mouth marketing and the founders' own perseverance. Gebbia and Chesky remained frugal and did most of the "dirty work" to promote their new startup. He often flew to New York to speak to hosts and city representatives to hear their concerns and determine

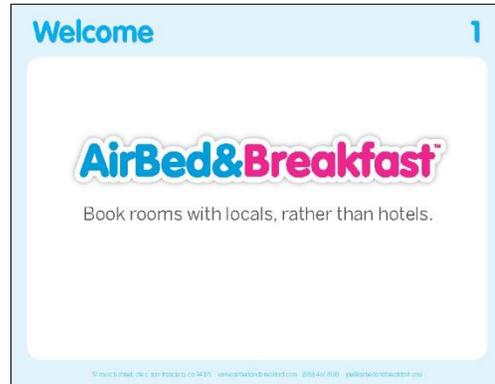


Figure 1 Original Airbnb Landing Page (Source: TechCrunch)

how to make their product better. A major source of their guests came from cities hosting conventions so they would also visit these venues to promote their product. On one particular ethnographic journey they found that pricing and photographing one's space were two major pain points for hosts.<sup>7</sup> This was a significant turning point for the company which eventually led to the development of a smart pricing tool within the application and photography services being provided by the company which allowed hosts to showcase their spaces in the best way possible.

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<sup>7</sup> (Gallagher, The Airbnb Story 2017)

## Managerial Practices within the Organization and the Importance of Culture

Because Airbnb was founded by two college dropouts that had no formal training in how to run a company, or manage people, the founders were often tasked with learning as they grew their organization. Brian Chesky was an art school dropout and didn't have the schooling that most CEO's do so he often sought the help of others to help him learn the traits of a successful manager. Some of his mentors include Warren Buffett, Bob Iger, CEO of Disney, Jony Ive of Apple and LinkedIn's Jeff Weiner.<sup>8</sup> In looking at how the company functions today, it's obvious to see how Chesky's management technique has been borrowed heavily from some of the most influential leaders in the tech industry.

As a startup in a highly competitive industry the founders of Airbnb also have to possess a high degree of perseverance to manage all of the opposing forces or barriers of entry of the hotel industry. Many startups within the sharing economy won't survive because they become so enamored with fighting city government and attempting to change public opinion they fail. Because of these challenges, "these companies require a different kind of CEO — extroverted, a good storyteller, a politician, someone who could charismatically rally customers to their cause."<sup>9</sup> This was exactly the case with Airbnb as the founders continue to encounter

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<sup>8</sup> (Gallagher, The Education of Brian Chesky 2015)

<sup>9</sup> (McGinn 2017)

tremendous pushback from city and local governments who have taken significant measures to limit the number of home shares within their limits. To counteract this, the founders have decided to approach their adversaries directly and attempt to formulate a plan that suits both parties' needs.

Countless articles and interviews highlight Brian Chesky's desire to uphold culture as the foundation for his high functioning organization. Chesky regularly quotes a phrase that was once said to him by one of the early investors in Airbnb, Peter Thiel, who when asked by Chesky, "*What is the most important piece of advice for us?*" famously responded by saying, "*Don't fuck up the culture*". The founders have carried this motto with them as their firm has grown over the last several years. Employees are treated to several perks which include free meals throughout the day, free laptops, flexible vacation policies and significant discounts for travel accommodations. Employee passion for the company is observed as the organization receives frequent accolades for having one of the happiest workforces in the tech industry and winning the 2016 Glassdoor's Employees Choice Award.<sup>10</sup> The founders rely heavily on the human capital that makes their firm so successful where Chesky's reasoning is that, "If you break the culture, you break the machine that makes your products".<sup>11</sup>

The management style of Chesky and the importance of culture can be witnessed all the way down to how employees are expected to perform in their daily roles. The firm believes that

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<sup>10</sup> (Glassdoor 2017)

<sup>11</sup> (Gallagher, The Airbnb Story 2017)

by allowing their employees the autonomy to make their own decisions this will result in a more productive work environment and “the fewer processes and the lighter the oversight, the better the conditions for innovation”.<sup>12</sup> As an organization that relies heavily on the work of highly skilled individuals, often in the areas of computer programming and engineering, perhaps having the flexibility to work independently is also an attractive perk for prospective candidates which also helps to sustain the culture of the organization.

Management at Airbnb also encourages employees to use a different narrative when explaining a problem or pitching an idea to a group of higher-ups. Chesky has coined the term “Up Level Thinking” where employees are encouraged to think more broadly and to “take it up a notch” during strenuous or peak times.<sup>13</sup> This is noteworthy as a motivational tool as it helps lower level employees more effectively communicate with upper levels of the organization while also motivating them to do their best work.

## How Airbnb Creates Value in their Product

Airbnb has taken the antiquated process of booking a hotel room online and simplified it into an all-in-one user-friendly platform that seamlessly integrates into any smartphone or desktop computer. Airbnb engineers have created a tool that allows users to never be further than three clicks away from booking.<sup>14</sup> The tool also does well to showcase the personality of

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<sup>12</sup> (Gallagher, The Airbnb Story 2017)

<sup>13</sup> (Gallagher, The Airbnb Story 2017)

<sup>14</sup> (Gallagher, The Airbnb Story 2017)

one's space and provides hosts an opportunity to integrate their own creativity into their listing page.

The platform is dually useful from both host and guest perspective as evidenced by its groundbreaking e-commerce features where the company utilizes Amazon's Web Services as the its cloud-based data warehouse provider<sup>15</sup> which serves as the home sharing network's nucleus. Accepting payments from guests and issuing those to hosts is also an

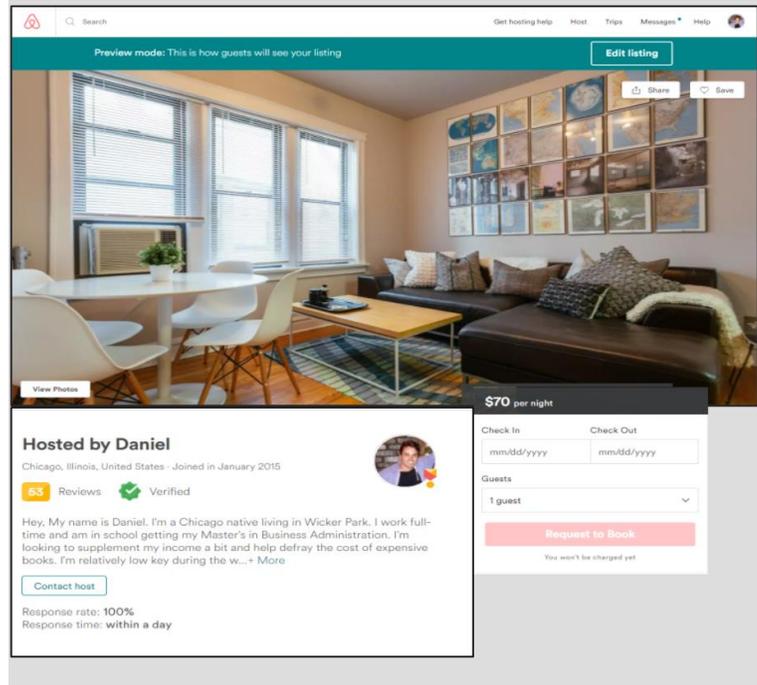


Figure 2 Airbnb's Present Current Listing Layout (Source: Airbnb.com)

impressive feat as there are millions of transactions taking place each year. To alleviate this challenge, Airbnb has partnered with PayPal<sup>16</sup> and created a payment system that both collects and remits payments in various currency from around the world.

## Airbnb as an Economic Force

The Airbnb platform would be considered an economic externality since it operates as a

<sup>15</sup> (Gallagher, The Airbnb Story 2017)

<sup>16</sup> (Gallagher, The Airbnb Story 2017)

third party in the transaction, one that Airbnb is benefiting from the interaction among host and guest, while they're also providing a service and support for hosts and travelers. Another externality would be the social benefit of Airbnb which is a conduit for the interactions among its users. There's an economic gain associated with the use of the Airbnb platform as opposed to traditional hotel booking platforms. The website is user friendly and doesn't require much effort to search across the entire database of listings. Optimization occurs when a traveler books accommodations through this alternative accommodations platform since the time it takes to find suitable lodging, coupled with affordable pricing, allows guests to maximize their benefit (better location, better price and added value of having a host-concierge service on demand).<sup>17</sup> As Airbnb continues to grow the Law of Diminishing Returns should be considered as more people choose to host through the platform and the demand for accommodations dwindles. City governments may also counteract this growth as new regulations are imposed on hosts and municipalities resulting in tighter restrictions in some cities.<sup>18</sup>

Airbnb's platform has zero marginal cost, given that a new room can be added to the platform with little overhead it's able to scale very cheaply. As a result of this, Airbnb can increase supply easily to meet demand while increasing hotel supply involves new construction and a lengthy permit process, causing a significant increase in marginal cost. Airbnb also has a unique ability to scale based on the demand during a given period. As previously noted, in the

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<sup>17</sup> (Lis P. Tussyadiah 2015)

<sup>18</sup> (Lis P. Tussyadiah 2015)

early years of the platform, a design conference triggered the company to have to adapt to the number of listings available as, “such gatherings can easily max out a hotel’s supply, creating new demand”. In later years the Democratic National Convention in Denver would result in similar actions.<sup>19</sup> Also noteworthy is the fact that the platform doesn’t penalize hosts who avail themselves during peak times which the company states, “It’s harder to grow the supply side (hosts) so many of the fees are imposed on the guests”.<sup>20</sup> This makes it more appealing for hosts to open their doors to travelers during these high demand times. From the guest side, users see the benefits of the “network effect” where the more people who book and use the platform the more attractive it is to others both in price and availability.<sup>21</sup>

## Advertising and Marketing

Airbnb spent 23.5 million dollars on advertising in 2015<sup>22</sup> with much of those ad dollars targeting millennials, the most influential travel group in 2017. The hospitality and tourism sector contributed for 9% of the \$49.5 billion online advertising revenue in the U.S. in 2016.<sup>23</sup> The organization’s advertising efforts are largely directed by a 2014 survey where the firm asked 480 employees, hosts and guest the question, “Why does Airbnb exist? And, “What’s our role in the world?” and the theme that continually emerged was that “the last thing they [guests]

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<sup>19</sup> (Gallagher, The Airbnb Story 2017)

<sup>20</sup> (Gallagher, The Airbnb Story 2017)

<sup>21</sup> (Gallagher, The Airbnb Story 2017)

<sup>22</sup> (Statista.com n.d.)

<sup>23</sup> (Liu 2017)

wanted to be is a tourist”.<sup>24</sup> The company has built its entire marketing message around the idea of being a “local” and that one should experience a city as a resident would. Airbnb’s value proposition was later defined as “living like a local”<sup>25</sup> where all efforts would be directed to the goal of making guests feel accepted in unexpected places. The company even applied what was once their internal mission of “belong anywhere” to what is now the official tagline of the organization.<sup>26</sup> In 2015, as the company sought to become an even larger global presence the slogan “never a stranger” was introduced to attract all international markets.<sup>27</sup> The success of these efforts was soon realized by Airbnb as they’ve become a reputable brand in international travel accommodations.

A great deal of Airbnb’s advertising efforts are spent through online mediums including Instagram and Facebook where “consumers increasingly rely on social media when discovering and purchasing hospitality services, online and dynamic advertising is vital to a brand’s success”.<sup>28</sup> Such platforms rely heavily on users’ browsing tendencies, location and friends as they’re specifically targeted with unique listings and personalized content. Tech giants such as Facebook “display personalized advertisements in the user’s news feed to enhance advertising effectiveness”.<sup>29</sup> The social media site also displays your connections’ “likes” and if they follow

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<sup>24</sup> (Gallagher, How Airbnb Found a Mission - and a Brand 2017)

<sup>25</sup> (Mildenhall 2017)

<sup>26</sup> (Gallagher, How Airbnb Found a Mission - and a Brand 2017)

<sup>27</sup> (Mildenhall 2017)

<sup>28</sup> (Liu 2017)

<sup>29</sup> (Liu 2017)

Airbnb which greatly increases one's likelihood they will also engage with the brand.

Socioeconomic factors are taken into consideration through Airbnb's direct marketing efforts and how the brand reaches consumers. Studies suggest that one's wanting to "belong" varies among social classes where the higher one's social standing, the less interested they are in the familial aspect of the home sharing platform and instead choose Airbnb experiences that promise uniqueness and independence. one study suggests that, "When promoting Airbnb, it may be more effective to display the belongingness appeal to residents of Mendota, IL and to show the uniqueness appeal to people living in Palos Verdes Peninsula, CA".<sup>30</sup> This approach is achieved through targeted marketing efforts that take into account one's location when using social media platforms.

Airbnb is uniquely positioned between the service provider or host who rents out her home, and those that it serves, guests. In this model, the host has an unused asset (space in a home) and the guest has a need to find lodging which results in a win-win scenario for each

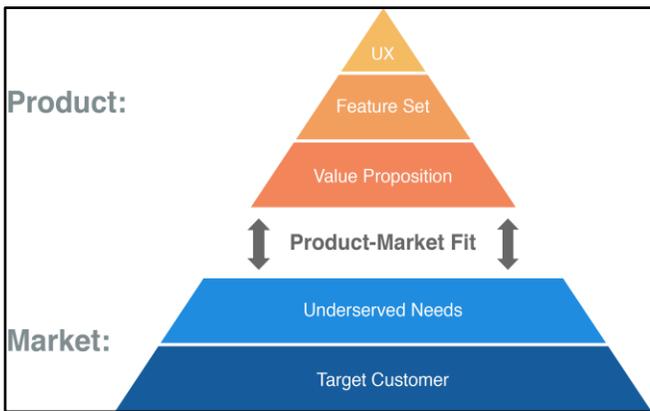


Figure 3 Product-Market Fit (Source: Wikipedia)

party. The platform has found the right product/market fit where it exists at the intersection of those with unserved needs and its value proposition of living like a local. This is a stark contrast from the hotel industry model which is single-sided and only serves

<sup>30</sup> (Liu 2017)

the guest.

## Disrupting the Hotel Industry and Local Governments

Airbnb is a relatively new peer-to-peer sharing platform that has severely disrupted the hotel industry's monopolistic marketplace by creating new supply, mainly at a lower cost. It has been a disruptive innovator, which exploits old technology in new ways and from a cost-benefit perspective, it is a better option compared to hotels because Airbnb provides more amenities for less money. The competition that hotels face from peer-to-peer platforms is unique in a few ways. First, Airbnb's platform has zero marginal cost, given that a new room can be added to the platform with little overhead.<sup>31</sup> The platform has an inventory that "varies each day and reflects the broader world for each city that it operates"<sup>32</sup> which attracts travelers of all demographics. As a result of this, Airbnb can increase supply easily to meet demand while increasing hotel supply involves new construction and a lengthy permit process, causing significant marginal cost. Lastly, Airbnb offers a wider range of products and services than hotels and can leverage existing housing to expand supply.

It would be impossible for Airbnb to grow so large without upsetting the status quo that has been set by the dominant players in the hotel industry. Much of the early success of Airbnb can be attributed to travelers taking a risk on the new platform and bypassing hotels in favor of

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<sup>31</sup> (McGrath 2017)

<sup>32</sup> (Gallagher, The Airbnb Story 2017)

this new shared housing model. As the founder points out, “Being an early adopter involves being brave”...“It means being OK with being called Weird”<sup>33</sup> This is noteworthy since anyone who stayed in an Airbnb prior to 2010 would have to have essentially been navigating in uncharted waters. At the time, the concept was so new that it required guests to have a significant amount of faith in their hosts, who were strangers, which is a noteworthy shift in perception that is nonexistent in the hotel industry.

Although the idea of home sharing isn’t new, Airbnb has taken many features of the hotel booking experience and improved them through developing a more creative and user-friendly platform. This led to Airbnb becoming a disruptive innovator which is “how products that lack traditionally favored attributes but offer alternative benefits can, over time, transform a market and capture mainstream consumers”.<sup>34</sup> Airbnb has created a major disturbance within the hotel industry as consumers no longer have to rely on traditional hotels as a means to satisfy travel their travel needs. Another characteristic of disruptive innovation is that it appeals to low-end users within the market. This is true of Airbnb as they attract mainly those 25-34 years of age. This demographic is largely ignored by the hotel industry and has different expectations when choosing an accommodation provider which include flexibility in price and location. As one author points out, “eventually the disruptive product [Airbnb] will improve so much so that it will

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<sup>33</sup> (Gallagher, The Airbnb Story 2017)

<sup>34</sup> (Guttentag, Airbnb: Disruptive Innovation and the Rise of an Informal Tourism Accommodation Sector 2013)

take the place of the prevailing product”.<sup>35</sup> More travelers will eventually see the benefits of the new product which will cause the prevailing product and market to either adapt or die. Disruptive innovation redefines a market and offers “unique benefits” which the prevailing product does not. An additional definition suggest that disruptive innovation “exploits old technologies in new ways”.<sup>36</sup> Regardless of how disruption is defined, Airbnb has already proved its success. After its inception in 2008, “it took until February 2011 to for the company to book its first million room nights, but by June of 2011 Airbnb had booked its second million nights, and by late January 2012 it had booked five million nights”<sup>37</sup>. This rapid expansion is clear evidence the platform is breaking new grounds in the hospitality industry.

In a market dominated by corporations such as Marriot and Hilton the hotel industry is ripe with monopolistic tendencies where travelers are limited in their choice of accommodations. Since the creation of Airbnb, consumers not only have their lodging needs fulfilled but also have the added benefits of being able to stay in a home with significantly more amenities in addition to the experiential aspect of their stay where host-guest interaction is almost guaranteed. From a cost-benefit perspective the choice is obvious; more comforts for less money. One might argue that market equilibrium will occur once the hotel industry attempts to match the services that Airbnb offers through more competitive nightly rates or even

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<sup>35</sup> (Guttentag, Why Tourists Choose Airbnb: A Motivation-based Segmentation Study 2017)

<sup>36</sup> (Turner 2017)

<sup>37</sup> (Guttentag, Airbnb: Disruptive Innovation and the Rise of an Informal Tourism Accomodation Sector 2013)

expanded concierge services that allow guests to have a more “local” experience similar to Airbnb.

The hotel industry continues to push for new legislation and regulations to limit the effectiveness of Airbnb and to decrease or in some cases, eliminate new entrants into the market. The hotel industry has realized that they have a substitutable product and that potential customers, given a choice, will migrate to a new, lower cost option, such as, Airbnb. To combat the potential loss in tax revenue, cities such as New York city and Chicago have proposed laws that will mandate Airbnb to collect hotel taxes from hosts, limit the number of units in a building that can be rented out, institute fines against illegal listings and require hosts to keep registration records.<sup>38</sup> While many of the new laws are being challenged in court, all have the potential to increase costs of Airbnb’s hosts and customers which in-turn, also diminish the effectiveness of the free market. In proposing new regulations, the local and state governments are not letting the markets work to provide opportunities and frameworks for trading goods and services. Instead, governments are trying to manipulate the markets and favor the hotel industry by stifling Airbnb and their hosts who want to create wealth through voluntary transactions and by moving assets and resources among agents who value them differently. Airbnb is a prime example of a business that has lowered the transaction costs as an engine to business while local and state governments, through regulations are impeding the movements of assets and

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<sup>38</sup> (McGrath 2017)

resources among agents to destroy value creation.

One of the distinct differences from Airbnb and a hotel is that Airbnb has the ability to market themselves as a “local” option since they’re often outside of centralized hotel districts which allows tourists to “experience parts of the city reserved for the people who live there”.<sup>39</sup> This is a new way of looking at travel since guests are no longer confined to the regions their hotels occupy but they’re allowed to experience their destination as a resident. The Airbnb platform is a strong advocate for the “democratization of travel”<sup>40</sup> where everyone has the right to experience a city as native.

In some markets, Airbnb has drastically impacted the hotel industry. Austin, TX for example, a very progressive city which has seen tremendous growth in recent years, “has seen a statistically significant decrease in hotel room revenue, showing that Airbnb’s presence lead to a decline of 8-10 percent for the most vulnerable hotels”.<sup>41</sup> It’s obvious that travelers are looking for alternatives when it comes to travel accommodations especially during peak times like Austin City Limits, where hotels increase their prices, “through compression pricing: the ability to send rates way up in times of peak demand”.<sup>42</sup> Airbnb has a unique ability to expand their supply during such times --where additional hosts can list their spaces and create even greater inventory.

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<sup>39</sup> (Gallagher, The Airbnb Story 2017)

<sup>40</sup> (Gallagher, The Airbnb Story 2017)

<sup>41</sup> (Gallagher, The Airbnb Story 2017)

<sup>42</sup> (Gallagher, The Airbnb Story 2017)

The hotel industry has gone to great lengths to thwart the progress Airbnb. The American Hotel and Lodging Association continues to lobby against Airbnb by attacking “illegal hotels”.<sup>43</sup> Their main argument is that Airbnb’s don’t comply with safety standards such as fire safety, cleanliness standards, and Americans with Disabilities Act standards since hosts are operating in their own homes.<sup>44</sup>

Airbnb has faced equally powerful forces through cities and municipalities which continue to bring about legislation and red tape designed to hinder the company’s growth in some areas. In most cases, municipalities ban it altogether instead of working to understand how the platform might add value to their districts. There are few studies on how Airbnb may contribute to the growth of communities, and the financial impact of travelers visiting new areas, but clearly increasing traffic in non-traditional hotel locations. Perhaps as the platforms continues to grow, and additional evidence is brought forward about the benefits of home sharing, Airbnb will be allowed to operate in more communities. Uber experienced similar backlash from cities and taxi drivers, but had the support of consumers, where “If they didn’t have a deep connection with users, they wouldn’t have been able to organize into such a potent lobbying force”<sup>45</sup> which ultimately kept them in business.

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<sup>43</sup> (Gallagher, The Airbnb Story 2017)

<sup>44</sup> (Gallagher, The Airbnb Story 2017)

<sup>45</sup> (McGinn 2017)

Several major hotel operations and other firms have taken steps to compete directly with Airbnb. Hyatt invests in OneFineStay, a UK-based startup which specializes in short-term rentals.<sup>46</sup> This illustrates the desire of the hotel industry to become a player in the home sharing market. Since these two firms have partnered, the hotel offers guests free luggage storage and use hotel facilities at many hotel locations in London. OneFineStay guests are able to use the amenities of the hotel without actually staying there which is a huge advantage over a traditional Airbnb.

## The Supplier: Host Entrepreneurial Spirit

Airbnb hosts, which enable the platform exist, are not only the most crucial element to Airbnb's success, but have benefited equally from the growth of the home sharing firm where "everyday people are economically empowered".<sup>47</sup> What some refer to as "Rentaprenures", Airbnb hosts, are people with unused resources such as a couch, private room or even a treehouse who allow others to use their property for lodging. Most hosts are able to supplement their income in a meaningful way. In 2015, the average host made \$6,000 through the Airbnb platform. The average age of hosts was 43 but those over 60 are the fastest growing demographic.<sup>48</sup> Due to the expansion of the sharing economy, the idea of co-habituating with strangers doesn't discourage hosts from participating. In 2016, one study found that "72% of

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<sup>46</sup> (Gallagher, The Airbnb Story 2017)

<sup>47</sup> (Gallagher, The Airbnb Story 2017)

<sup>48</sup> (Gallagher, The Airbnb Story 2017)

American adults had used one of eleven sharing or on-demand services, and that a third of people under forty-five had used four or more.<sup>49</sup> This suggests that people are becoming more comfortable with peer-to-peer consumption. The bartering element present in this transaction is equally important where people “could thrive by hiring out skills as they wanted, and putting money in the pockets of peers who had done the same”.<sup>50</sup> The transaction is reciprocal where both parties are benefiting from the resources of another; the host monetarily and the guest through lodging. There is a rating process that occurs upon the guest’s departure where each party rates the other on aspects of cleanliness, location, overall value and communication. There are criticisms of this review process since some argue that hosts will only accept guests they believe will leave them a favorable review. When a guest requests to book that host may review their past reviews and select them based on the prospect of receiving a favorable future review.<sup>51</sup> One advantage of Airbnb is that if you have a room over a garage or other unused real estate asset, you can turn it into a source of revenue.<sup>52</sup> Since there’s no significant start-up costs associated with hosting, it has allowed average people the chance to increase their home economies where, “the combination of the AeroBed and the Internet has now made everybody into an innkeeper”.<sup>53</sup> As more hosts continue to join and others see the benefits of hosting the platform will continue to grow.

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<sup>49</sup> (Heller 2017)

<sup>50</sup> (Heller 2017)

<sup>51</sup> (Acchiardo 2017)

<sup>52</sup> (Rosenbush 2014)

<sup>53</sup> (Schonfeld 2008)

Airbnb has taken additional measures to attract new hosts as well as retain existing hosts. Most of the fees associated with using the platform are imposed on the guest where they pay a hospitality tax in addition to a cleaning fee. The company subsidizes hosts by offering free services such as professional photography<sup>54</sup> and regularly sends gifts to help keep hosts motivated.

A small number of New Yorkers are using Airbnb to rent out rooms or entire apartments in order to supplement their income or to fill apartments that would otherwise be vacant. Evelyn Badia, for example, rents out a room in her duplex and the upstairs two bedroom apartment, the latter which she used to rent to a long-term tenant, and grosses around \$100,000 annually<sup>55</sup>. The state of New York market is one of Airbnb's most active and currently there are more than forty-five thousand listings in New York City alone, which generate hundreds of millions of dollars in rental income every year for hosts who use the platform.

## Collaborative Consumption and Co-creation

Collaborative consumption is a significant trait within the sharing economy present in the Airbnb platform. The Economist defines collaborative consumption as, "organized sharing, bartering, lending, trading, renting, gifting and swapping through online and real-world communities — to get the same fulfillment and benefits of ownership with reduced personal

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<sup>54</sup> (Gallagher, The Airbnb Story 2017)

<sup>55</sup> (McGrath 2017)

burden and cost and as well as lower environmental impact.”<sup>56</sup> The entire premise of Airbnb is the shared space where hosts open their private residences to allow access to ordinary people. Identity verification including a photo and authenticating other social media allow the guests and hosts to both feel safe throughout the shared process. The sharing economy which allows for the distribution of resources among peer-to-peer networks through a process of co-creation, can also be viewed from a cultural perspective where social connections are made and meaningful experiences shared through the Airbnb experience. The sharing economy is a direct result of the new economy as it sprung out of the invention of the computer which then led to the creation of the internet.<sup>57</sup>

The Airbnb platform has redefined the hotel model by creating a less formal peer-to-peer arrangement which allows the middleman (Airbnb platform) to act without much intervention. Taking this a step one can describe “Collaborative Consumption” where “individuals rent access to their underused assets ranging from living spaces to cars to power tools”.<sup>58</sup> What makes the Airbnb experience unique is that trust is established between each party through identity verification features within the platform as well public reviews of hosts and guest which allow for increased transparency throughout the booking process and through the guest’s stay.<sup>59</sup> There’s additional research that suggest that “binding agreements are less risky because transactions are

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<sup>56</sup> (Guttentag, Airbnb: Disruptive Innovation and the Rise of an Informal Tourism Accomodation Sector 2013)

<sup>57</sup> (Guttentag, Why Tourists Choose Airbnb: A Motivation-based Segmentation Study 2017)

<sup>58</sup> (Guttentag, Airbnb: Disruptive Innovation and the Rise of an Informal Tourism Accomodation Sector 2013)

<sup>59</sup> (Guttentag, Airbnb: Disruptive Innovation and the Rise of an Informal Tourism Accomodation Sector 2013)

ensured by a third party, creating an assurance structure”<sup>60</sup> where Airbnb acts as the middleman in the transaction. The experience is not entirely monetary-based and does offer hosts and guests the opportunity to engage in new ways where “a type of tourism is created and enjoyed through the establishment of interpersonal relationships in which organizers are not just profit-driven, but strive to establish an atmosphere of honest and shared hospitality”.<sup>61</sup> This suggests that many of the benefits of using an Airbnb are often rooted in something more meaningful than a money. Unlike a hotel, Airbnb is at the center of the interpersonal interaction of traveler and host where “Airbnb encourages guests and hosts to keep the transactions unbalanced by way of gift giving or helpful acts such as providing guidance and socialization. Contrary to this, the goal of the hotel industry is to “extract maximum consumer surplus” from consumers.<sup>62</sup>

## Economic Impact on the Destination

Airbnb not only increases the travel frequency of those using the platform but also has positive outcomes both economically and culturally on the regions that travelers are visiting. Due to the dispersion of Airbnb listings, accommodations are regularly outside ordinary “hotel districts” allowing tourists to visit new areas or what is referred to as “back regions”.<sup>63</sup> This is significant for underserved neighborhoods outside of metropolitan cities.

People are becoming more frugal when it comes to travel and want to save money on

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<sup>60</sup> (Airi Lampinen 2016)

<sup>61</sup> (Garibaldi 2015)

<sup>62</sup> (Mohammad Reza Habibi 2017)

<sup>63</sup> (Lis P. Tussyadiah 2015)

lodging and choose shared accommodations opposed to large hotel chains. Airbnb fosters a community of collaborative consumption where, “consumers put less value on ownership in favor of renting or bartering”.<sup>64</sup> Travel Frequency is also increasing as a result of lower accommodation costs which leads to a reduction in the total trip cost and makes travel more affordable. One author argues, “the low prices of peer-to-peer accommodation induce more travel”<sup>65</sup> Simply put, due to the growing number of Airbnb listings, and availability of those listings in new and unique countries and cities, more people are traveling. In essence, “increasing room supply with a new form of economical accommodation should foster visitation, which should have positive impacts on the broader tourism economy”.<sup>66</sup> There is also a positive impact on a micro-level as seen by the neighborhoods which travelers frequent when people stayed longer they engaged in more money-spending activities outside of their lodging residence where, “as a result, peer-to-peer accommodation systems contribute to the local economy and generate income that is crucial to local residents”.<sup>67</sup>

## The Customer: Guest Demographics and Travel Tendencies

The profile of Airbnb users is noteworthy as it represents a significant shift in travel patterns of Americans. The makeup of Airbnb users is 52% of travelers are 12-30 years old. Of those, 68% are female with 62% having stated their highest level of education as

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<sup>64</sup> (Lis P. Tussyadiah 2015)

<sup>65</sup> (Lis P. Tussyadiah 2015)

<sup>66</sup> (Lis P. Tussyadiah 2015)

<sup>67</sup> (Lis P. Tussyadiah 2015)

“university/college” with 47% describing their household income as “just above average”.<sup>68</sup> No longer is travel reserved for the retired or rich, as Airbnb offers more affordable options to a traditional hotel. This group is largely made up of Millennial travelers which some define as “Hipster Nomads”.<sup>69</sup> These travelers seek new and authentic experiences involving food, photography and community all of which Airbnb provides.

There are additional reasons that travelers choose Airbnb over a traditional hotel or hostel. The cost of an Airbnb is generally less than a room at a hotel chain as one study suggests, “price (or economic benefits) has been recognized as “one of the most important motivators”.<sup>70</sup> Given that Millennials are considered power users of the platform it’s not surprising this is the case. People also want to legitimize their role as a tourist and seek “authenticity” through Airbnb accommodations.<sup>71</sup> Travelers are no longer complacent to their travel lodging, rather “generators of value, protagonists, encouraged to participate actively in the offer.”<sup>72</sup> People prefer staying at an Airbnb as it offers many of the comforts of home, where “household amenities and space” were cited as a top reasons for choosing shared housing.<sup>73</sup> Travelers are no longer confined to the space their hotel occupies and are encouraged to actively participate in the community in which they are visiting.

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<sup>68</sup> (Guttentag, Why Tourists Choose Airbnb: A Motivation-based Segmentation Study 2017)

<sup>69</sup> (Gallagher, The Airbnb Story 2017)

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<sup>71</sup> (Guttentag, Why Tourists Choose Airbnb: A Motivation-based Segmentation Study 2017)

<sup>72</sup> (Garibaldi 2015)

<sup>73</sup> (Guttentag, Airbnb: Disruptive Innovation and the Rise of an Informal Tourism Accomodation Sector 2013)

## Brand Collaboration, Partnerships and bolt-on Businesses

Airbnb continues to seek out new ways to market their product through collaborative efforts with some of the largest companies in entertainment and sports. Airbnb partnered with Disney to create a floating guest room on the Great Barrier Reef. Other companies such as Bayern Munich Soccer Club have partnered with the brand to create a similar experience on the field of a live professional soccer game.<sup>74</sup> These partnerships also exist in the business world as Airbnb has recognized the need to market to these travelers too. In 2016, business travel accounted for 15% of Airbnb bookings.<sup>75</sup> To grow this market, Airbnb has partnered with American Express Global Business Travel, BCD Travel and Carlson Wagonlit Travel, all of whom handle much of the back-end work securing travel arrangements for business travelers.<sup>76</sup> One reason companies prefer to use the Airbnb platform instead of other tools is the built in features such as background checks, diverse location choices, a rating process and easy check-ins.<sup>77</sup>

Other business and cottage-industry services have spawn from Airbnb in an attempt to fill the needs of hosts and guest. “Pillow fluffing services” such as Pillow and Guesty attempt to ease the host process by offering cleaning and key exchange services. Others that have coined themselves as “Airbnb Consultants” such as sarahlafferty.com and evelynbadia.com who

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<sup>74</sup> (Gallagher, The Airbnb Story 2017)

<sup>75</sup> (LeFebvre 2017)

<sup>76</sup> (Gallagher, The Airbnb Story 2017)

<sup>77</sup> (LeFebvre 2017)

collaborate with prospective hosts to help plan budgets, set pricing, setup and curate space, all for a fee.

There are also companies that have been established such as KB Homes that offer custom built homes conducive to the Airbnb hosting experience. These homes would have separate guest entrances and many amenities that you would find in hotels.



Figure 4 Home Built for Airbnb use (Source: KBhomes.com)

Airbnb is also working in-house to create “Experiences” where guests are paired with local partners to learn new skills or a craft while on their stay. These could include sushi making, surf lessons or even socially responsible activities such as volunteering at a food pantry. This is not only an additional revenue source for Airbnb but reinforces the community aspect of the brand and deepens the guest’s relationship with the host city.<sup>78</sup>

## The Financial Implications of Going Public

There has been much anticipation of whether or not Airbnb will eventually go public. The company is estimated to be worth “\$30 billion, which comes to \$198 per guest arrival”.<sup>79</sup> As of

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<sup>78</sup> (Gallagher, The Airbnb Story 2017)

<sup>79</sup> (Turner 2017)

June 2016 the company had actually taken measures to not go public including an aggressive push to buy stock back from current employees, “By adding new cash, it can continue to spend on its global expansion; and by cashing out longtime employees, it can reward and retain top talent without an IPO”.<sup>80</sup> Regardless of an IPO occurring or not, “at \$30 billion, Airbnb remains the third-most valuable closely held tech company in the world”.<sup>81</sup> “At least six mutual-fund operators already hold shares in Airbnb and value of their shares is between \$87.51 and \$120.68 a share”.<sup>82</sup> One of the concerns if the company does decide to go public is whether or not to offer hosts shares of stock. Similar consideration was given when eBay went public but due to the large number of sellers using the platform it would mean millions of people would have to share in the ownership of the company. Another concern is the impact it may have on the culture of the organization. Since shareholders aren't as close to the brand as those that it employs this could have a negative impact on the business.

## Conclusion

Airbnb has broken new grounds in the home sharing sector which has impacted both the hospitality industry and local governments. The platform has significantly increased the travel trends of millennials by offering alternative accommodations at a cheaper price. The creative management at Airbnb continues to target travelers using innovative methods and offers

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<sup>80</sup> (Rolfe Winkler 2016)

<sup>81</sup> (Rolfe Winkler 2016)

<sup>82</sup> (Rolfe Winkler 2016)

tourists the ability to experience new destinations as a local. For these reasons, Airbnb has positioned itself as a major disruptor in the hospitality industry, one that will have a substantial impact on the economies of both hosts and guests well into the future.

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