



A WRITTEN REVIEW AND ANALYSIS

GROUP ASSIGNMENT

PRESENTED TO DR. STEPHEN PILGRIM

IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR STRATEGIES IN
STRATEGIC DECISION MAKING COURSE

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BACKGROUND

Brian Joseph Chesky was born on August 29, 1982 to Robert and Deborah Chesky. His father was Polish and his mother was Italian. In 2004, Brian received his Bachelor of Arts degree in Industrial Design. It was during his college years he met Joe Gebbia, who later became his business partner and web designer. The Chesky success story is one of persistence and flexibility. There are a few articles written about him and his Airbnb quests with varied titles like “The homeless entrepreneur” but kept his belief that he has a practical solution, a product that can be used almost anywhere (Publiese, 2017).

INTRODUCTION

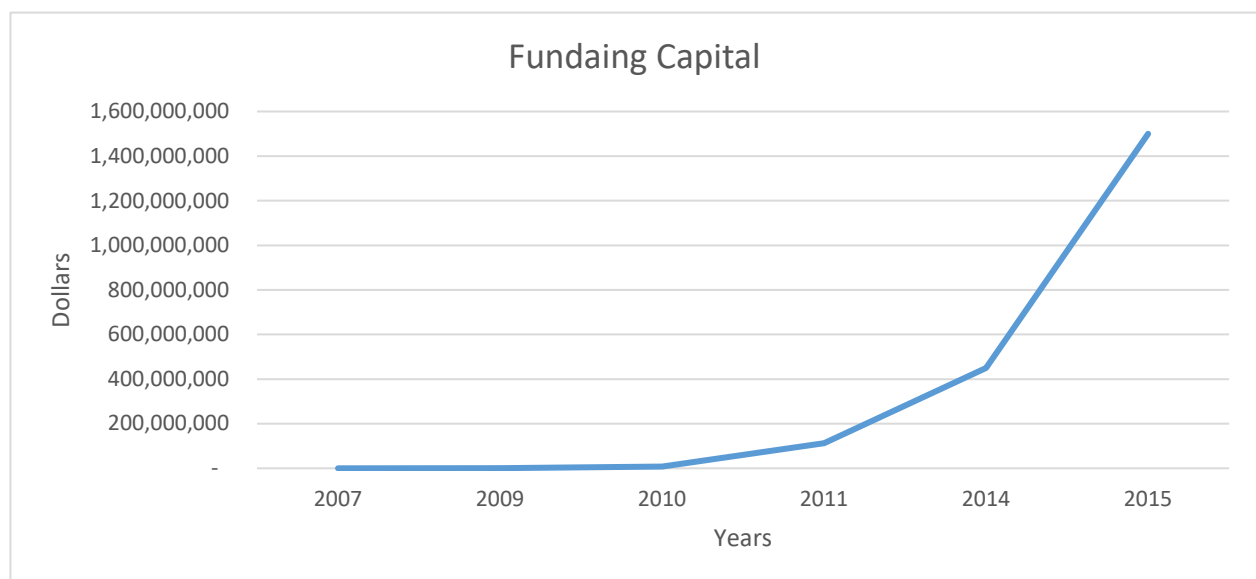
Brian Joseph Chesky became frustrated with not being able to find reasonably priced accommodations when attending conferences and other business events. He birthed the idea of using airbeds. His idea was to purchase an airbed, which is simply a container filled with air, plugged it up so that the air cannot escape and sleep on it. With the airbed, Chesky thought, he had a novel concept. He would no longer have to pay high prices for hotel accommodations. He could walk with his airbed, find a corner, and inflate the bed then sleep, anywhere. Chesky soon realized that it was not convenient or safe to sleep outside, because of atmospheric and personal safety conditions. He therefore started to explore the idea of renting rooms and apartments from city locals.

After a few stays in various parts of the country, he decided to market the unique idea, and voila, AirBnB (Air Bed and Breakfast) was born. Chesky contacted local homeowners and market the idea of renting temporarily to travelers who visit their cities. Initially, the services were from vacation rentals, private houses, cabins, apartments and any suitable spaces in the areas that had events such as football games, basketball and other events that attract large audiences. This idea grew to include tourists from within the USA and internationally. Chesky started contracting with local homeowners and vacation rentals. His initial attempt yielded a

meagre \$80.00 from three customers. He found a mentor, Paul Graham along with his friend and roommate, Joe Gibbia, a Harvard graduate, who designed and build a website, to market AirBnB.

The website proved to be user friendly and it made a significant difference in attracting customers—providing visual information about the accommodations and facilities on the online transactions. Shortly after, the demand for reservations forced this company to secure \$600,000.00 capital loan from Capital G, which is an affiliate of Google. Google and other corporations realized the potential of this company and were ready to invest in its mission. With the reputation and rapid sales growth, this company was able to penetrate the establish hotel and tourism business and gave travelers/tourists economical alternatives. People loved the idea that they could save money on their vacation or trips.

AirBnB received further funding from a number of other sources that saw the potential and quickly bought into to the airbed and breakfast business. The chart below shows funding trend for AirBnB from 2007 to 2015.



BLUE OCEAN STRATEGY

We consider AirBnB to be a Blue Ocean strategy initiative. Blue Ocean thinking does not seek to challenge the competition head-on, but rather, look for the customers that others are not currently serving and seek to make inroads with those customers. The benefits of Blue Ocean thinking are as follows:

- Builds framework that would leave the competition and create new areas and products.
- Seeks to take elements of particular industries and reconstruct them to offer new and differently packaged commodities.
- Demonstrates combining value, people and profit by making new market spaces/places.

Chesky received feedback from his customers that having the pictures of the spaces for rent on the website would greatly enhance sales. After three short years, AirBnB outsold Hilton International Hotel. Their sales slogan, “*There’s a new way to stay,*” appealed to local and international travelers. The hosts were homeowners who wanted to make extra income, while they were away from home, or they have extra space available. AirBnB’s income was two-fold, the fee (3%) they charged homeowners to find customers and the fees (6-12%) they charged travelers for finding accommodations. All bookings were made through their interactive website.

SWOT ANALYSIS

We used the SWOT analysis, which is a tool that helps an organization to strategically plan and recognize the factors that would enable it to build and sustain itself. This framework tool helped us evaluate four distinct areas as it relates to strengths, weaknesses, opportunities and

threats—that is, how the external environment influenced AirBnB. Our analysis revealed that AirBnB has the following **STRENGTHS**:

- An excellent customer-centric service operating 24/7.
- It provided unique opportunity for travelers to have direct contact with locals and experience their lifestyles.
- It guarantees safety for hosts with insurance that covers one million dollars (\$1,000,000) per booking.
- It has the potential for expansion for operating internationally—market of accommodations exists everywhere.
- Financial stability and capital for expansion
- Large selection of listings—over 800,000 in 33,000 cities in 192 countries.

The SWOT tool identified where they are not doing as well—their **WEAKNESSES** include:

- Opponents, including lobbyists from the hotel industry are fighting against the concept.
- They are operating with the awareness that they are violating zoning laws that prohibit people from running a business, hostel in residential areas and laws requiring hosts to pay hotel taxes.
- They also must act as mediator between hosts and tenants, which generates additional costs and involves them in disputes.
- They rely heavily on the quality that the hosts deliver, that is, the more issues that arise with a host, the more bad publicity the company receives.

- Homeowner rental properties are susceptible to stealing and destruction of property from clients. Therefore, AirBnB has expenditures for renovations, legal expenses and other miscellaneous expenses.

The group also discovered that AirBnB has many **OPPORTUNITIES**. Among them:

- Growth of mobile device market. The AirBnB mobile app provides a convenient way for travelers to make short-term reservations and rentals.
- The possibility to expand operation in related markets, such as travel guides, user-suggestions; partnering with airlines and car-rental companies, house cleaning enterprises, and travel insurance providers.
- An expansion to service a growing number of travelers looking for alternative ways to travel and explore the societies and cultures of their destinations—which is a niche between couch surfing and regular hotels.
- Growth because of dissatisfaction with hotels due to high prices and accommodations that are inferior to AirBnB's.
- Change of laws and regulations (San Francisco and Portland have already agreed to legalize most types of AirBnB listings in exchange for tax revenue and other concessions).
- New and large exploitable markets in countries where hotel services are expensive or inconvenient, such as, India. The company recently purchased a Canadian resort that had experienced financial distress—they saw the opportunity, took advantage of it, and will now be able to operate a franchise for itself.

We noted that AirBnB also faces **THREATS**, which include:

- Growing competitors, such as 9flats.com, wimdu.com, travelrent.com clickandrent.com.
- An increasing number of issues with unpleasant host experience, for example, a New York customer returned home to find an orgy underway in the apartment she rented.
- Lawsuits and fines. For example, New York sued two hosts for running illegal hotels in empty apartment buildings they owned. Barcelona also levied fines on the company amounting to 30,000 Euros for breach of local tourism laws. In another case, a customer cleaned out all the furniture of a homeowner. Fines levied against another homeowner for renting out a room without a license.
- Increasing number of high-quality hostels and budget hotels that offer low prices, 24/7 customer support and friendly staff.

TOWS MATRIX ANALYSIS

Using the TOWS Matrix, a tool similar to the SWOT, we analyzed the threats and opportunities and then the weaknesses and strengths. Focusing our attention on the areas and markets that could expand AirBnB—*opportunities* and seek to eliminate harm—*threats*. We believe that the company could focus on the following *opportunities*:

- Expansion of its operation into related markets, such as travel guides, user suggestions; partnerships with airlines and car rental companies
- They could provide house-cleaning services and provide travel insurance for their clients.

They could also stave off or eliminate *threats* by focusing on the following:

- With their financial position, they can expand and acquire more properties in order to provide lower costs—thereby, increasing their clientele.

- They could provide security for rental properties and thereby decrease or eliminate fines resulting from lawsuits that arise from customers stealing from rental properties.
- They could also do a more thorough screening of hosts, to decrease the number of complaints that arise because of customer dissatisfaction.
- They could also provide merging opportunities from start-ups, thereby, minimizing the competition.

As it relates to their *strengths* and *weaknesses*, they could do the following:

- Since there is an abundance of capital loans, they could buy more properties that Airbnb would own and thereby increasing profits—and decreasing/eliminating the need to pay out fees to rental hosts.
- With ownership of more properties, they could provide more services that would satisfy their clientele—and decrease bad publicity as a result of hosts' unsatisfactory behaviors.
- They could provide employee development training opportunities to enable their employees to provide more client-friendly services.
- They could also keep abreast of changing zoning laws and thereby eliminate fees for lawsuits.
- They could also have a “think tank” that looks for other Blue Ocean strategy opportunities in order to increase their *strengths* in the market.

PESTEL (Political, Economic, Social, Environmental, and Legal)

These factors have impact on an organization's performance:

- In business, interest rates and income would have an impact on the business economically.
- Government policies, such as tax regulations affect the business politically.
- New discoveries and increased spending affect a company, technologically.
- Environmental protection regulations and global warming would affect a company environmentally.
- Population changes and income lifestyles would influence an organization socially, and health and safety issues would affect an organization legally.

Using **PESTEL** to analyze AirBnB, we observed that it is considered a cheaper, more comfortable hotel alternative; where average people rent their rooms/apartments to guests in exchange for money, thereby, providing them with extra income and profits for AirBnB. However, the company faced hurdles with their speedy worldwide expansion. Nevertheless, they brought economic benefits to cities and the environment.

Political factors—Unregulated Housing Laws: AirBnB is unique in their business operation. They allow homeowners to rent their homes, apartments, or rooms to strangers. However, there are issues, because in some locations, customers do not adhere to state housing laws and regulations. For example, in some states, it is not permissible for owners to rent the property on a short-term basis, if they are not living there. In addition, there are local hotel and tourism taxes that must be paid when renting accommodations during the holidays. Fines were levied against AirBnB because they neglected to follow local tourism laws.

Economic Factors—Benefiting Hosts and Cities—the benefits of having hosts in many cities contribute to AirBnB's enormous growth. They are the leader in "Shared economy." This industry is on an upward trend where resources are shared between corporations and individuals.

Another example of a “Shared economy” company is Uber. With AirBnB speedy exponential growth, they now serve over nine million customers worldwide. AirBnB provides opportunity for additional income for homeowners who periodically offer their homes to guests. They have also provided employment for many people. New York derived revenue of over \$600 million dollars and over 4,000 jobs (Publiese, 2017).

Social Factors-New “Experience,” AirBnB is a social business. Hosts offer their homes to guests in exchange for money and guests document their experiences. Although guests review accommodations, hosts also discuss tenant activities—for example, Reddit has a sub-Reddit where both hosts and guests discuss their needs and experiences openly. The company also has an “Experiences” initiative where customers can book three-day experiences like burlesque classes; or attend special events. Guests can also do “social impact experiences” where non-profits accommodates and receive 100% of the profits (Zervas et al. 2017).

Technological Factors—Tech Necessities—AirBnB relies heavily on technology. Guests will book rooms on the app or through their website. Guests also use the website to write reviews. A bad review means a host will have a difficult time with future bookings. They also use automation. If a host does not respond to a guest’s message, AirBnB will automatically text the host. Hosts could not be contacted, rooms could not be booked, and AirBnB could not function as easily as it does without the use of technology.

Environmental Factors—Healthier than Hotels—through their slogan, “*Healthier than Hotels,*” AirBnB boasts that they reduce energy usage within Europe and the United States compared to hotels. This includes, lowering greenhouse gases, less water consumption, waste avoidance, and increased environmental awareness. In addition, it seems that AirBnB is keen on lowering traveling impact and chemical usage.

Legal Factors – Thorough Terms and Conditions—AirBnB faced legal issues in their failure to comply with housing regulations. On the company’s website, they address the need for hosts to follow the rules. Hosts must agree to Terms and Conditions, provided by AirBnB. They must follow taxation, housing, and tourism regulations. Their Terms and Condition legal document provides AirBnB with liability protection when issues arise.

“Shared Economy” AirBnB is a leader in the business of “*Shared Economy*.” They offer jobs for their hosts, and rooms and homes to visitors. However, every state and county has its own rules on housing. The need for permits, licenses, and taxation, depends on location. AirBnB often failed to address some of these issues and faced backlash and legal issues. In recent years, they have addressed those issues by ensuring that hosts abide by regulations by accepting their Terms and Conditions before bookings. The company relies heavily on technology to do its business, to communicate between hosts and guests, and reviews for experiences. Many customers love the cheaper option of staying in cities that would be otherwise unavailable. AirBnB claims to be more environmentally friendly than the average hotel.

CRITICAL SUCCESS FACTORS (CSFs)

We have identified the following as AirBnB’s Critical Success Factors (CSFs):

- Mentorship—Chesky took advantage of the mentoring opportunity provided by Paul Graham.
- Location—Services are available in 192 countries and 33,000 cities internationally.
- They boasts competitive prices.

- Low overhead—they utilize technology to do their business, with less need for brick and mortar facilities.
- Their website provides user-friendliness, good presentation catch phrases, good marketing strategy and ambiance.

PORTER’S FIVE FORCES (*Threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of customers and inter-firm rivalry*)

Companies like AirBnB want to know what their competitors are doing. However, Porter encouraged businesses not to focus on what their competitors are doing; but rather, to examine what other factors could interfere with the profitability of their businesses. Using Porter’s Five Forces, the group analyzed AirBnB in an effort to understand the forces that shaped competition within the airbed and breakfast industry. We examined the threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of customers and inter-firm rivalry. We found the following:

- ***Threat of new entrants*** is moderate for AirBnB. While it is not too expensive to enter the airbed industry, the company is financially stable and covers a wide national and international market in 192 countries and over 33,000 cities. It would take a new company many moons to catch up to and surpass AirBnB in capital and profitability. While there are not many barriers to entry, because of the size and scope of AirBnB, new entrants would be better off looking for other Blue Ocean strategies.
- ***Threat of substitutes*** could be very high because customers are always finding new ways to save money or spend more money for comfort. They could easily switch to traditional

hotels, bed and breakfast facilities, hostels, and other alternatives for future accommodations.

- ***Bargaining power of suppliers*** is very low because homeowners looking for rental guests do not have much alternative for connecting with customers. AirBnB controls the connection between homeowners and guests. Since there are limited contacts between homeowner and guest, aside from going through AirBnB, homeowners and guests cannot conspire to make demands on the company.
- ***Bargaining power of customers***—since there seems to be no way for customers to band together for group buying and no real alternatives, for the time being, the bargaining power of customers against AirBnB is low.
- ***Inter-firm rivalry***—we believe, is moderate or even low. Although there are similar services like AirBnBs, this company surpasses the competition in scope, profitability and capital. The company continues to invest to keep rivalry at a minimum.

MARKET SEGMENTATION

We previously discussed the Blue Ocean concept as it relates to AirBnB. We will now discuss their market segmentation. We looked at the tourist industry and noted that while it caters to most travelers, especially those who have little resources for travel, vacations or recreations; this segment of the market was underserved. Some of these customers were looking for cheaper ways to enjoy their trips. Chesky, a former member of this segment, sought to do something about it. As a result, he developed the concept to give accommodations to consumers who have limited resources, who are able to squeeze in money for a rental apartment, cabin, or space instead of in a hotel, where the prices can be very high. This segment of the market is based on limited and/or medium-ranged disposable income and resources.

STRATEGIC CAPABILITIES

AirBnB is in a position to minimize its competition and other threats because of the following:

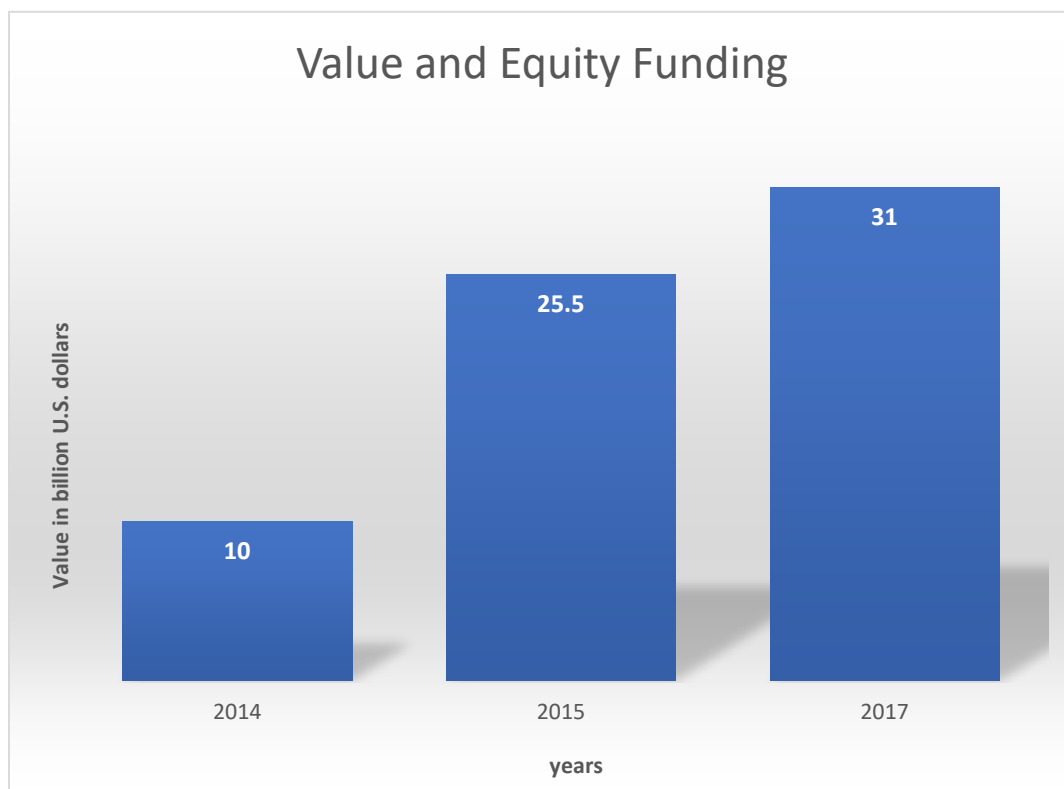
- Financial stability. The company is currently worth over 31 billion dollars, with its founder's personal worth of 3.8 billion dollars. The company can use some of this money to reinvest and buy properties.
- They could continue to sponsor events, such as Olympic Games—for goodwill
- They could continue to join companies, such as MicroSoft—Bill Gates, and Warren Buffet and give to educational scholarship funds.
- They could continue to give to charities, and thereby increase its social value.

SUMMARY and RECOMMENDATIONS

In summary, AirBnB is a relatively young and successful company providing alternative accommodations for travelers. In a very short time, AirBnB expanded its operation to 192 countries internationally and offer services in over 33,000 cities. They currently worth over 31 billion dollars. In our class presentation at Camp Victory Lake, we noted that AirBnB could have another Blue Ocean strategy by expanding to include taxi services. We learned that they heard us and that they are indeed pursuing that option. The chart below shows AirBnB's financial status.

As noted above, our recommendation is that AirBnB, with its vast capital, should reinvest and purchase more properties, thereby eliminating the need to rent properties from homeowners and other rental companies. They can also give to charitable organization for education and other social needs. They can continue their environmental-friendliness. They can also keep abreast of zoning and other local laws and eliminate lawsuits and other unnecessary costs.

Although they are banned in Berlin and New York, they have a wide market and still many, many more to enter. Growth and expansion is on Chesky's mind. He says, "if we don't grow and past what we originally invented, what led to your success leads to your death" (Brooker 2016/2017).



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