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The Success of a Unique Product Airbnb Source Texts

Analytical/Descriptive Report Module 1



(Airbnb, n.d.)

Report Prompt:

Describe the situation and two reasons for the success of Airbnb.

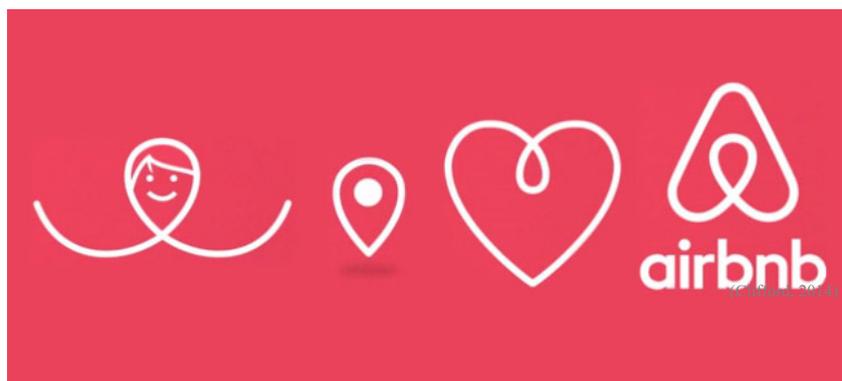
Text 1: Airbnb’s Success: Offering a Unique Product to Travelers

Airbnb is a lodging company, which uses a business model that assists homeowners or “hosts” to rent their homes (or just a bedroom in their homes) to travelers or “guests” for short periods of time. The company does not own any lodging itself. Rather, it is just a middleman platform and receives a fee from both hosts and guests with every booking. Airbnb has over 3,000,000 homes available that are listed on its website. Although the company headquarters is in San Francisco, USA, the homes listed on its website are in 65,000 cities and 191 countries. The price of renting a home is decided by the host.

Airbnb’s Success Comes from a Unique Product

Airbnb has achieved astonishing success partly because it offers a product that is unique in four different aspects. First, the cost of staying at an Airbnb accommodation is often lower than the prices at a full-service hotel, which gives Airbnb accommodations a competitive advantage over hotels. Specifically, an Airbnb accommodation is 25-50% lower in comparison to residing at a hotel and most of the time, the guest can experience an equal or higher level of comfort at the Airbnb lodging. Furthermore, when a guest stays with an Airbnb host, the guest often has access to practical amenities, such as a full kitchen, a washing machine, and a dryer.

Guests at Airbnb can also have a special, cultural experience instead of an impersonal one at a hotel. For example, a guest could do the following: pick mushrooms in Italy; take a backstage tour of an aquarium in South Africa; eat an authentic, home-cooked meal in Thailand; or learn to make pottery in Morocco. Finally, guests are also able to stay in a very unusual property rather than an ordinary apartment or house. To illustrate, some Airbnb lodgings are castles, lighthouses, and houseboats.



Source: Tate, A. (2017, February 23). 54 Airbnbs that will blow your mind (not your budget). Retrieved from <http://www.refinery29.com/crazy-Airbnb-rentals#slide-22>

Text 2: Airbnb: A Few Problems and a Lot of Success

Why is Airbnb under Attack from the Authorities?

Airbnb is a website that allows individuals to rent out all or part of their houses, apartments or an empty room to visitors. Generally, it is legal for people to rent their homes as long as the owners follow the laws required by local government. For example, in Dubai, Airbnb hosts must follow the laws set by Dubai's Department of Tourism and Commerce Marketing (*DTCM*).

However, one problem is that often the lodgings advertised on the Airbnb site are actually in violation of local laws. For example, in New York, homeowners can legally rent their apartments out for 30 days or less *if* they are also living in the property. Unfortunately, many Airbnb hosts are not living in their property, but they still rent them. This is illegal. As a result, Airbnb has received fines. For example, in 2015 Airbnb incurred one from the city of New York for \$30,000 and in Dubai those who violate regulations may face up to 100,000 AED in fines or even eviction.

Success Through Technology: Simple Advertising and Simple Booking

Despite these lawsuits, Airbnb has been a very successful company. A major reason for this is due to the advanced technology that its website is built on. The technology, called "Web 2.0" allows hosts and guests in the Airbnb community to easily and directly conduct business with each other without the help of a website administrator. For example, hosts can advertise their homes by uploading their descriptions and photographs of their lodgings by themselves, directly to the Airbnb website. Similarly, guests can instantly book a lodging directly with the host, just by sending credit card details, also without the help of a website administrator.



Web 2.0 is the same technology used in many social media websites such as Facebook and Wikipedia. It has made communication among different website users much faster and easier.

Source: Coldwell, W. (2016, August 4). Airbnb's legal troubles: What are the issues? In *The Guardian*.

Retrieved from www.theguardian.com

Text 3: Why is Airbnb Succeeding?

The Beginnings of Airbnb

Shortly after moving to San Francisco in October 2007, Brian Chesky was too poor to afford the rent for his loft apartment. Consequently, he came up with the idea of inflating an air mattress in his living room and renting it to travelers at a low cost. Many tourists responded favorably to his offer so in 2008, he expanded it and created the website, <https://www.Airbnb.com/> which allowed others to offer travelers a place to sleep in their homes too.



(Clifford, 2014)

A Unique Product: Low Prices for Comfortable Accommodations

Airbnb's success is partially because it markets a unique or special product, which is offering a wide selection of low-cost lodgings to tourists; however, the lodgings have a similar degree of comfort to full-service hotels. Therefore, Airbnb has been highly popular with budget-conscious travelers. Figure 1 below presents a price comparison between Airbnb and hotels in nine cities and in all cases, the Airbnb prices are lower.

There are three reasons why Airbnb lodgings are cheaper. First, Airbnb hosts usually do not have to pay labor costs because unlike a hotel, there are no employees. For example, there is no reception or cleaning staff to pay so Airbnb hosts do not incorporate these charges to into prices. Secondly, Airbnb hosts are usually not required to charge their guests taxes. This is very different than the situation for hotel owners in many countries where a hotel is obligated to charge each guest a tax that is dictated by the government. Thirdly, Airbnb hosts are generally not fully dependent on their Airbnb revenue, so usually their goal is to make only a moderate profit, not a high one.



(Airbnb, n.d.)

Source: Gallagher, L. (2017). *The Airbnb story: How three ordinary guys disrupted an industry, made billions . . . and created plenty of controversy*. London, England: Penguin Books.



Figure 1. A cost comparison between Airbnb and hotel accommodations. The hotel prices are indicated above the Airbnb prices (Dieblius & Mcquire, 2016).

Source: Dieblius, G. & Mcquire, C. (2016, March 30). Airbnb vs hotels: Infographic reveals which type of accommodation is cheapest in cities around the world. In *The Daily Mail*. Retrieved from <http://www.dailymail.co.uk/ushome/index.html>

Text 4: The Rapid Growth of Airbnb

The success of Airbnb is seen in its increasing number of bookings and revenues. Furthermore, the increasing revenues have given it enough money to buy other businesses which is another mark of success. Details about this are presented below.

Increasing Numbers of Bookings

Airbnb has grown quickly since it began in August, 2008. In February 2011, Airbnb announced its 1 millionth booking since it started. In June 2012, the company reported that it had booked 7 million reservations. Seventy-five percent of those reservations came from people outside the USA. As a result, Airbnb opened several international offices to deal with these customers. By October 2013, Airbnb had served 9 million guests. At the present time in 2017, Airbnb has served more than 150 million travelers.



(Gulf News, 2016)

Revenues Continue to Climb

Airbnb has experienced a continual increase in its revenues. In 2013, revenues were about \$250 million, but by 2015, revenues reached nearly \$900 million. By the end of 2016, revenues were \$1.7 billion and experts predict revenues will reach \$2.8 billion in 2017 and \$8.5 billion by 2020.

Acquisition of Other Businesses

Due to its high revenues, Airbnb was able to buy two existing web-based businesses. The first one was called CrashPadder. It was a rival business to Airbnb. After purchasing it, Airbnb was able to add Crashpadder's 6,000 international listings to its own. Due to this, Airbnb became the largest lodging website in the United Kingdom. Next, Airbnb bought the website Localmind. Localmind is a question-and-answer platform. It allows users to post questions about specific locations online. Responses to these questions are then given in real-time by experts in those locations.

Source: Tom, M. (2017, February 15). Airbnb expects \$2.8B in 2017 revenue, \$8.5B by 2020. Retrieved from <https://pitchbook.com/>

Text 5: Airbnb’s Success Helped by ‘Trust Through Technology’

An important component in Airbnb’s success has been its adoption of Web 2.0 technology. Web 2.0 technology gives its users two functions. First, it allows for direct, private, real-time conversations to take place between different users. Secondly, it permits website community members to post messages publicly. What is the benefit of these two functions? According to experts, these two functions allow users to trust each other. This trust is essential for a web-based business to be successful. There are two features on the Airbnb website that help to create trust: the ‘Messaging Feature’, and the ‘Reputation Feature’.

The Messaging Feature

Before hosts and guests meet in person, they can communicate directly, privately and in real-time with the *messaging feature*. (An example is in Figure 1 on the right.) To illustrate, guests can send questions to hosts’ about their accommodations and hosts can respond to those inquiries and ask their own such as what the purpose is of the guest’s visit. Because this type of conversation can happen between the two parties, in real-time and without delay, trust can develop between them. Trust is crucial because without it, most people would not share a home with a person whom they never had personally met.

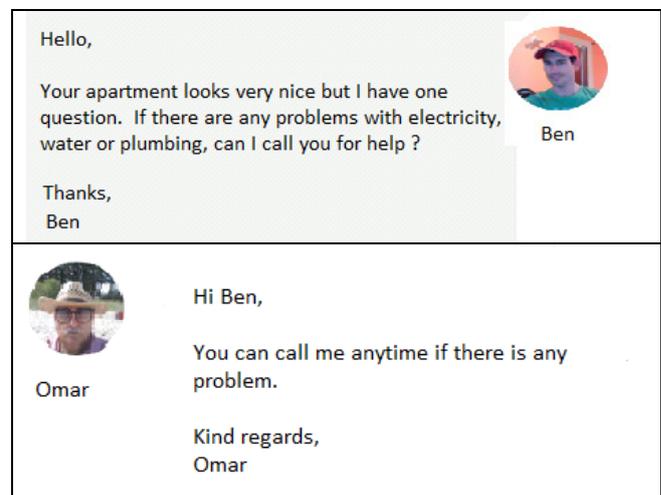


Figure 1: The messaging feature.

The Reputation Feature

Trust is further enhanced by the *reputation feature* which allows hosts and guests to upload comments that are publicly viewable about each other after they met. (An example of this is in Figure 2 below.) This feature promotes trust because hosts are conscious that guests are inclined to write negative comments if they felt disappointed. Similarly, guests know that hosts will probably post something unfavorable if guests are problematic. Lauterbach (2009) explained the importance of the reputation feature, stating it is “...essential for online transactions, where the parties have little prior experience with one another. The reputation feature creates a reason for both parties to conduct themselves in an acceptable manner.”

Source: Lauterbach, D. & Truong, H. (2009). *Surfing a web of trust: Reputation and reciprocity on CouchSurfing.com*. Retrieved from <http://www.hung-truong.com/>

Positive Comments	Negative Comments
 <p>Comments from Kenneth the guest about Omar the host:</p> <p><i>“Omar's place is wonderful. It is centrally located and you can walk everywhere. Omar responded to my questions immediately. When I return to Egypt I will stay at his place.”</i></p> <p>Kenneth, a guest</p>	 <p>Comments from John the guest about Omar the host:</p> <p><i>“We booked a 5-night stay but left after the 2nd day. My wife did not feel safe staying here. The building is old and seemed abandoned. It was not clean in the bathrooms and kitchen. Also, there was no swimming pool for my children. We went to stay in a 5-star hotel.”</i></p> <p>John, a guest</p>
 <p>Comments from Omar the host about his guest Kenneth:</p> <p><i>“Kenneth was a very nice, correct and polite guest. He kept the apartment clean and respected the house rules.”</i></p> <p>Omar, the host</p>	 <p>Comments from Omar the host about his guest John:</p> <p><i>“Strange guest. I think he did not realize my apartment was in an historic building. Yes, the building is old, but it is clean and charming. Also, my building is not abandoned. There is a medical clinic and a travel agent on my floor. If John had told me he was looking for something modern, I would have advised him not to stay in my place.”</i></p> <p>Omar, the host</p>

Figure 2. The Reputation Feature.

Source: Abdelaziz, O. (2016, July). Charming Luxury Heart of Prestigious Downtown. [Blog post]. Retrieved from <https://www.airbnb.com/rooms/4473374#host-profile>