

case study

Airbnb: A Disruptive Innovation-based Business

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Introduction

“Live there.” “Welcome home.” “Belong Anywhere.” These taglines indicate and represent Airbnb, which is considered a disruptive innovation-based Customer-to-Customer (C2C) business model. The concept of disruptive innovation was first introduced into academia and business-focused publications by Dr. Clayton M. Christensen, a professor at the Harvard Business School, through his widely popular publications and presentation on the subject. Christensen explains, “An innovation that is disruptive allows a whole new population of consumers at the bottom of a market access to a product or service that was historically only accessible to consumers with a lot of money or a lot of skill” (Christensen, 2012). In the case of Airbnb, it has enabled hosts—those individuals who lacked the resources to compete with hotel organizations’ vast distribution channels and hefty marketing budgets—to collectively reach out to a global market of consumers who were seeking alternative accommodations to traditional lodging facilities such as hotels and motels.

Background

Airbnb is actually not the first collaborative consumption business model to be positioned in the sharing economy. The Dublin-based home-sharing company Homestay was the first platform similar to the business model of Airbnb. Its tagline was not that different from Airbnb’s: “Don’t just visit, live it” (Ting, 2016). However, Homestay did not reach the level of success that Airbnb has attained. Unlike Airbnb, Homestay did not offer guests private lodging options to rent. Guests who booked through the Homestay platform were housed with a host family or person. A later player to the game, Airbnb has gained impressive popularity over a relatively short period of time, partially due to guests’ having the option to rent a room, a couch, or an entire house for themselves. Since the company’s inception, Airbnb served more than 60 million people in more than 34,000 cities and 191 countries (Airbnb, 2016). As its business has expanded all over the world, more than two million house, room, and apartment listings have become available on Airbnb.com. The San Francisco based company began its business as an unassuming start-up with three air mattresses. This

innovative lodging concept was developed by two roommates, Brian Chesky and Joe Gebbia (Airbnb, 2016). With its first name, Airbedandbreakfast.com, the two roommates had begun to sell space in their loft in order to subsidize their monthly rent. Since changing the company name to the simpler Airbnb.com in 2009, its business has become one of the most talked about trends in the lodging industry.

Impact of Airbnb

Due to the rapid growth of its business, Airbnb’s impact on the lodging industry has increased. Affordable rates are one of the company’s main weapons, especially in big cities where hotel room rates are skyrocketing (e.g., New York, Chicago, Boston, etc.). For example, in New York City the average hotel room rate is \$245 per night, while the average rate of the listings on Airbnb is only \$94 per night. According to an HVS report prepared by the Hotel Association of New York City (2015), Airbnb negatively impacted the lodging industry and New York City’s revenue by \$2.1 billion due to lost room taxes and fees. The small start-up with three air mattresses has grown into a major threat for hotels across both the leisure and business segments of the lodging industry.

Benefits of Airbnb in the Sharing Economy

Perhaps the competitive pricing is not the only benefit that guests can expect from Airbnb. Although the price is one of the top advantages of booking with Airbnb, it is not the sole decision factor. There are several other benefits that compel consumers to book through Airbnb.com.

First, its business platform is not merely limited to the Internet. Because Airbnb is also mobile-friendly, consumers can easily access its platform through the mobile application (app) or its webpage. Yet, most hotels and online travel agencies (OTAs) also have their own mobile apps and online presence. Therefore, what makes Airbnb different from other mobile-friendly platforms? The Airbnb app serves as a one-stop portal for travelers’ accommodation shopping. Customers can search for various types of rental homes, places, and attractions in one integrated platform. Conversely, typical hotel brand mobile apps only provide information about room availability and rates and are limited by the inventory and hotel type the brand has to offer. OTAs such as Expedia and Booking.com offer sophisticated mobile apps, but they are limited by the hotel products available in a particular market (i.e., limited or no extended stay hotels with kitchenettes).

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Second, Airbnb provides travelers with an entirely different accommodation experience than traditional hotel rooms. One of the reasons why it is so attractive is that travelers may have grown tired of the traditional Business-to-Customer (B2C) context when searching for accommodations. In other words, hotel rooms are somewhat predictable in terms of layout and amenities. Also, some guests may be frustrated with the hotels' revenue management practices, such as rate fencing and membership-based discounts not being consistently available.

Third, through Airbnb, consumers can reach almost any location where there is a host willing to rent an accommodation, whereas hotels may be more limited in terms of location due to a variety of reasons, including the restrictions on operating a hotel in a residential area and the cost of maintaining a business in low-demand areas. Hence, the flexibility and reach of Airbnb are additional reasons to consider it as a disruptive innovation platform. In general, there are many regulatory hurdles and huge upfront costs in building new hotel properties. However, Airbnb does not need to build a new property to provide accommodations at a new location. Overall, Airbnb accommodations provide consumers with a wider range of options compared to traditional lodging products.

User-Related Issues and Internal/External Threats

Despite the success of Airbnb, it still faces challenges that need to be addressed in order to maintain a sustainable business model. A key internal issue to consider is safety. Airbnb depends on individual sellers to provide accommodation services, yet it is quite difficult for the company to oversee any potential safety issues and take preventative measures. For example, a 19-year-old Massachusetts man reported an incident involving an alleged sexual assault by one of his Airbnb hosts (Stump, 2015). Such tragedies, coupled with a potential media frenzy, could adversely impact consumers' trust. Airbnb has reportedly increased its efforts to prevent such security issues and protect its hosts and guests from criminal acts (Hamm, 2015). For example, Airbnb now requires hosts to confirm that their properties are indeed qualified to rent (e.g., photos submissions for having an Airbnb verification). This policy, along with online reviews from previous guests, potentially help customers find safer places to stay.

Another issue to consider is the pace of the company's expansion. Currently, four million Airbnb listings are available across 191 countries and counting (Airbnb Fast Facts, 2017). The problem is that countries have different regulations and restrictions on the accommodation industry. As a business entity, a typical hotel organization may be better equipped to manage various regulations and associated legal issues than Airbnb.

Given Airbnb's unique and relatively new business model, legislators have had a hard time introducing timely regulations to manage its immense growth and adverse impact on communities (Peterson, 2016).

For example, in certain jurisdictions, tax may not be imposed on Airbnb transactions due to the lack of relevant laws. Although this may seem like an advantage for Airbnb and its hosts, the long-term ramifications of limited regulations and the resultant perceived image of the company across communities may adversely impact the long-term prospects of Airbnb (Dickenson, 2018). It is worth discussing the potential perception of Airbnb as a non-contributing business entity by local governments.

The earning structure of Airbnb is another matter to consider. Currently, Airbnb takes about 18% from every single reservation made through its website. Although 18% of total reservation fees is not an insignificant amount, it is unclear whether it will suffice if the transactions decline (Bird, 2015). This simplistic approach to generating revenue could be risky for Airbnb's long-term financial performance. To resolve this potential issue, Airbnb should consider adding other revenue streams to ensure long-term sustainable growth.

Recent studies show that sales of hotel rooms have been threatened by Airbnb, as a growing number of travelers have begun to choose Airbnb rather than hotels for their accommodations (Guttentag, 2015; Zervas et al., 2015). Initially not very alarmed by Airbnb, hotel companies have finally started to perceive the business as a serious threat (Guttentag, 2015) and take aggressive countermeasures (Benner, 2017). Airbnb needs to have a strategy to fight back, educate consumers about the contributions it provides to communities where it operates, and find creative ways to collaborate with the hotel industry whenever possible to reduce the negative publicity and potential hostile actions.

The aforementioned threats and issues must be examined holistically as Airbnb keeps growing and expanding its footprint in the global lodging industry. At the same time, one must remember and reflect on business commentator David O. Adefife's quote: "Never innovate to compete, innovate to change the rules of the game."

Discussion Questions and Activities

Disruptive Innovation and Sharing Economy

- How would you define disruptive innovation in the context of the hospitality industry?
- Describe the trend of the sharing economy?
- How does the sharing economy enable disruptive innovation?
- What is the impact of disruptive innovation on collaborative consumption?
- Besides Airbnb, what are other examples of disruptive innovation in the hospitality industry?

Issues and Threats:

- Does Airbnb pose a long-term risk for the lodging industry?
- Should the hotel industry recognize Airbnb as a direct competitor?
- List all issues and threats highlighted in the case study. As an educated hospitality customer, which issue/threat do you think is more critical than the others? Why?

- What are some of the measures Airbnb could undertake to address security issues?
- What are possible alternative revenue paths for Airbnb? Are there any other significant issues pertaining to Airbnb that are not addressed in the case study? Elaborate.
- Discuss the possible ways Airbnb can influence regulatory policies to reduce the business growth risks they present.
- Who is the major direct competition for Airbnb? Are there any indirect competitors that may erode (or slow the growth of) Airbnb's market share?
- How can Airbnb best address negative public relations efforts launched by its competition? Offer detailed examples.
- Which group of users are more likely to advocate for further growth of Airbnb: guests or hosts? Why? Explain the rationale for your answer.