

Airbnb: A Disruptive Innovation-based Business

Summary of the Case

With the rise of the sharing economy and a platform grounded on a disruptive innovation-based Customer-to-Customer (C2C) business model, Airbnb has become a strong competitor for the lodging industry. Since its business expanded throughout the world, there are now over two million house, room, and apartment listings on Airbnb.com. The rapid growth of its share in the market as an alternative lodging accommodation has adversely impacted the revenues of several hotel segments. While a reasonably affordable price is one of the main benefits Airbnb offers, there are other factors that fuel its success.

First, Airbnb has wisely focused on the user experience of its platform and made its services available on both the Web and mobile devices (via its app) with easy and consistent navigation. Second, it has capitalized on the popular trend of publishing user-generated reviews by enabling hosts and guests to review each other, hence increasing consumer trust in the platform. Third, unlike other similar services that preceded it, Airbnb diversified the accommodation offerings by giving consumers a wide spectrum of choices, from sleeping on a couch to having a private villa all to themselves. This gives Airbnb an advantage over hotel companies, which are limited by the type of accommodation offerings they can provide to their prospective guests. OTAs are also limited by the inventory that hotel companies offer them. Using the advantages of the sharing economy and presenting an innovative approach to empowering consumers to easily get into the business of offering lodging accommodations, Airbnb quickly seized on the power of social media, cloud computing, and enhancements in mobile devices to broaden its market share as a lodging alternative to traditional hotel products.

Initially, hoteliers ignored the growth of Airbnb, to their detriment. However, after witnessing drops in bookings across various markets, the hotel industry and local governments have lobbied heavily to curb Airbnb's growth. Regulatory concerns include loss of tax revenue, erosion of hotel rates in certain markets, and decreases in rental housing inventory. Will the efforts of the hotel companies fighting Airbnb be similar to the taxi companies' fruitless efforts against ride-sharing companies? This remains to be seen. Airbnb's rapid global expansion also presents threats in the form of various regulations and laws that differ by country, state, and local government. A shift in regulatory processes not favoring the Airbnb business model could pose logistic and existential threats to Airbnb.

Besides the aforementioned issues, Airbnb is also facing negative public relations problems due to criminal incidents that involve its hosts and/or guests. An erosion in consumer trust of its service quality and business model is not something Airbnb can afford. A thorough

discussion of the threats and various issues Airbnb faces will provide opportunities to evaluate several management concepts and trends.

Teaching Objectives

While Airbnb may be considered a lodging company, it is actually a technology company focused on offering accommodations and travel experiences to its guests while providing an opportunity to earn an income for many others. With this in mind, the purpose of this case study was to let students contemplate the various issues an emerging disruptor (even one on a successful path) could face beyond mere growing pains. Instructors should focus on the meaning of the disruptive innovation/technology and what it means to the current consumers/guests who are becoming more "tech-savvy" and increasingly more digitally connected. Instructors may also consider discussing whether Airbnb is in the business of hospitality or plays the role of an external influencer that forces change in traditional hospitality operations.

As the concepts of disruptive innovation are used to review Airbnb's novel business model, the teaching objectives of this case study are aimed at helping students to:

- Understand the definition of disruptive innovation and the role of technology.
- Learn the unique structure of the sharing economy and its associated business models.
- Identify various issues, threats, and opportunities that may arise as the technology-based sharing economy business grows rapidly and captures more of the service industries.
- Analyze the issues highlighted in the case study and come up with actionable solutions.

Target Audience

The case study is suitable for use in both undergraduate and graduate courses in hospitality and business. It can be adopted for freshman and sophomore level courses pertaining to management and/or technology to help students explore the impact of business models on the hospitality industry, examine the influence of technology on traditional business models, or discuss the evolution of guest behavior. For upper-division courses, the case study could serve as part of a research assignment on marketing strategy and distribution channels, strategic analysis of industry trends, and market planning. For graduate courses, the case study could serve as a supplement to a seminar style exploration of disruptive innovation, with additional readings (see the list provided) required for an in-depth discussion spread over weeks.

Table 1

Topics for Discussions

Discussion Topics	Sample Questions
Disruptive Technology/Innovation	What is the true meaning of disruptive technology? What are the implications of disruptive innovation for the future of the hospitality industry?
Sharing Economy	What makes the sharing economy an attractive concept to organizations? What opportunities/threats does the sharing economy present for the future of the lodging industry?
Business Structure & Plan	What makes Airbnb unique from other competitors with similar business models? What items should Airbnb's three-year business plan include?

Recommended Teaching Approach

Students are strongly encouraged to read this case study prior to the class along with additional recommended readings on disruptive technology, the sharing economy, and the business structure and culture of Airbnb. A class session could begin with a discussion to assess students' comprehension of the assigned readings. Writing some key words on the board will help students focus on critical elements that they need to be aware of as the discussion continues.

Once students start to get engaged, it is recommended that they are divided into small groups (three to five per group) to discuss what makes the Airbnb business model unique compared to other sharing economy business models such as Uber and Lyft. This small group discussion will enhance students' understanding of the core concepts introduced in the case study. The discussion could be followed by short, two-to-three-minute group presentations on Airbnb's fundamental dilemmas and critical internal/external issues as it attempts to expand its business globally. The following is a list of discussion topics along with questions to pose to each group (Table 1).

Analysis of Teaching Objectives/Theoretical Concepts

This case study considers Airbnb's potential to significantly disrupt the traditional accommodation sector, and the positive or negative impact Airbnb may have on the lodging industry, as well as the various issues and threats it is currently facing.

While possible solutions can be identified from various perspectives, defining what exactly disruptive technology/innovation is and how it relates to the sharing economy is a critical element to introduce to students. Instructors could lead the discussion towards the elements that make an emerging company successful while identifying lessons to be learned for the hotel industry.

Disruptive Technology/Innovation

Disruptive technology/innovation can be defined as a technology or innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leaders and alliances (Bower & Christensen, 1995).

Disruptive innovations transform complicated, expensive products into simpler, more affordable ones. For example, technology gets better and better, making previous technology simpler and more affordable.

Sharing Economy

The sharing economy, also known as collaborative consumption, is a trending business concept that highlights the ability (and perhaps the preference) for individuals to rent or borrow goods rather than buy and own them (Cusumano, 2015). The concept of the sharing economy encourages disruptive innovations, where asset owners use digital clearinghouses to capitalize the unused capacity of things they already have, and consumers rent from their peers rather than rent or buy from a company. The sharing economy includes both the demand and supply side. The regulation of such a business model has been an ongoing debate.

The Airbnb business model is unique in that it is built around disruptive, cloud-based technologies and is appealing to customers for its low rates, household amenities, and potential for more authentic local experiences. Instructors should consider pointing out the perceived consumer benefits that have been attributed to Airbnb's success. Despite its rapid growth, there are many legal issues and other corresponding concerns that need to be discussed. In addition to what is already provided in this case study, it is suggested that students discuss other potential problems Airbnb may face in the future.

Additional Readings

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