

CASE EXAMPLE

The rise of a unicorn – Airbnb

Duncan Angwin



Airbnb logo

Source: Russell Hart/Alamy Images.

A unicorn is a mythical animal that has been described since antiquity as a horse with a large pointed spiral horn. Legend has it unicorns are very rare and difficult to tame. It is a name that has been adopted by the US venture capital industry to denote a start-up company whose valuation exceeds \$1bn (£0.6bn, €0.75bn). Airbnb, founded in 2007, was one of these rare and valuable unicorns, already valued at \$25bn in 2015. How could this start-up become so successful, so fast?

Origins

The original founders of Airbnb, Joe Gebbia and Brian Chesky, first met at Rhode Island School of Design. Five years later, both aged 27, they were struggling to pay their rent when a design conference came to San Francisco. All the hotels were fully booked, so they set up a simple website with pictures of their loft-turned-lodging space – complete with three air mattresses on the floor and the promise of a home-cooked breakfast in the morning. This site got them their first three paying guests at \$80 each. It dawned on them this could be the start of something big. They both wanted to be entrepreneurs and Brian already had some experience having designed a cushion for back sufferers and built a website.¹ Next day they created a website, www.airbedandbreakfast.com.

They decided to target conferences and festivals across America, getting local people to list their rooms

on a website created by former flatmate and computer programmer, Nathan Blecharczyk. In the summer of 2008, Barack Obama was due to speak in Denver at the Democratic Party National Convention. Eighty thousand people were expected to attend and Joe and Brian thought there would be a shortage of hotel rooms. They rushed to complete their website in time and recorded 800 listings in one week. However, it did not make any money. To survive they had to make use of their entrepreneurial skills, buying cereal in bulk and designing packaging such as 'Obama's O's' and 'Cap'n McCain' cereal; jokey references to the two Presidential candidates of the year. However, they soon added a payment facility to their website allowing them to charge up to 15 per cent of the booking (the host pays 3 per cent and the traveller between 6 and 12 per cent). By April 2009, they were breaking even.

Growth

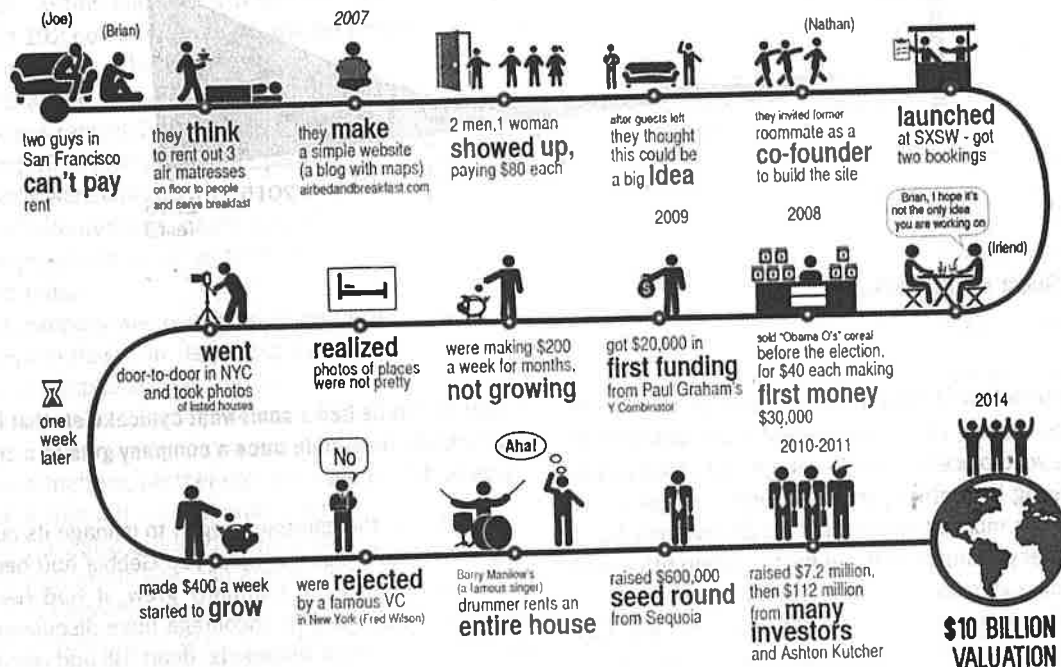
Attracting funding for their start-up was not easy. Investors saw Gebbia and Chesky purely as designers, which did not fit the traditional start-up profile. Funders thought there would not be much demand for listings that mostly advertised sleeping on airbeds.

Nonetheless, in 2009 Airbnb received its first funding of \$20,000 from angel investor, Paul Graham, co-founder of Y Combinator (a start-up mentoring programme), who was impressed with their inventiveness and tenacity. The company was renamed Airbnb and it provided an app and website that connects people seeking lodging with renters who have listed their personal houses, apartments, guest rooms on either platform. Further funding followed: in November 2010 Airbnb raised an additional \$7.2m. This allowed the company to expand to 8000 cities worldwide, to increase the number of employees to 500 and to move out of the founders' flat – where staff had been making sales calls from the bathroom and holding conferences in the kitchen – to offices in the design district of San Francisco. The early history of Airbnb is illustrated in Figure 1.

HOW AIRBNB STARTED

BY ANNA VITAL

Or How 3 Guys Went From Renting Air Mattresses To A 10 Billion Dollar Company



Funders and Founders

based on reports in *Telegraph*, *WSJ*, and *The Atlantic*

Figure 1 Airbnb early growth story

Source: Funders and Founders, Inc., Image courtesy of Anna Vital.

However, in 2010 Airbnb was experiencing sluggish listings in New York. Joe and Brian booked spaces with 24 hosts and flew out to try to understand the problem. They soon realised hosts were doing a very poor job of presenting their properties. They immediately rented a \$5000 camera and took as many photos of New York apartments as possible. Listings in the city suddenly doubled. From there on hosts could automatically schedule a professional photographer. This was an immediate hit and by 2012 there were 20,000 freelance photographers being employed by Airbnb around the world. The photos also built trust for guests as they verified addresses. The company also introduced Airbnb Social Connections, which leverages users' social graphs via Facebook Connect. This shows whether friends have stayed with the host or are friends with the host and it allows guests to search for hosts based on other characteristics, like alma mater. Again this reassured potential guests.

Further venture funding of \$112m was received in July 2011. Airbnb expanded through acquisitions with a deal in Germany and the purchase of their largest UK-based

competitor Crashpadder just in time for the 2012 Summer Olympics in London. Offices were opened in Paris, Barcelona and Milan. Airbnb's growth was explosive with a higher valuation than Hyatt and Wyndham hotel groups by 2014 and more guest nights booked than Hilton Hotels (see Figure 2). By 2016 Airbnb was valued at \$25bn – more than any other hotel group. The company justified its valuation by claiming that, when its price (\$25bn) to sales ratio of 27.8 (based on estimated sales of \$900m for 2015) is divided by its high growth rate of 113 per cent per year, the resulting value for the group is broadly in line with the sector.² Airbnb forecasts \$10bn of revenues by 2020, with \$3bn of profits before tax.

Airbnb proved attractive to guests and hosts as its listings were far superior to others available at the time, such as Craigslist – they were more personal, with better descriptions and nicer photos that made them more appealing for people searching for vacation rentals. The rooms provided by Airbnb were also cheaper than equivalent ones at hotels and had more of a personal flavour. For instance, in a recent stay in Paris a user noted the host

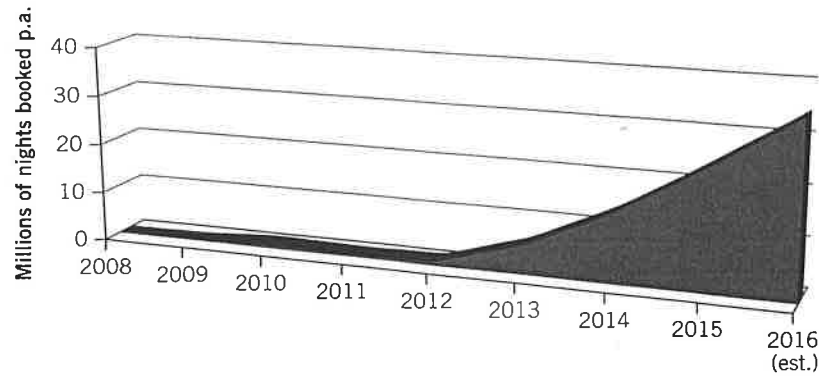


Figure 2 Guest nights booked

had left a selection of food in the refrigerator, a bottle of wine on the counter for her guests and a welcoming note suggesting good places nearby to eat out and convenience shops. Staying in another person's apartment makes the visitor feel far more at home than an anonymous hotel room. For many young guests and hosts, Airbnb fitted into the contemporary sharing culture exemplified by Easy car club, where users can rent their car to others, and Girl Meets Dress, that allows girls to borrow and lend their dresses for special occasions. For hosts, rents provide a source of income to help pay for soaring accommodation costs in many major cities.

Managing growth

Founder and CEO Brian Chesky penned a memo in 2013 to his top management team, as follows:³

Hey team,

Our next team meeting is dedicated to Core Values, which are essential to building our culture. It occurred to me that before this meeting, I should write you a short letter on why culture is so important to [co-founders] Joe, Nate, and me.

... In 2012, we invited Peter Thiel [a major investor] to our office. This was late last year, and we were in the Berlin room showing him various metrics. Midway through the conversation, I asked him what was the single most important piece of advice he had for us.

He replied, 'Don't f* up the culture.'**

This wasn't what we were expecting from someone who just gave us \$150m. I asked him to elaborate on this. He said one of the reasons he invested in us was our

culture. But he had a somewhat cynical view that it was practically inevitable once a company gets to a certain size to 'f* it up.'**

Accordingly, the company began to manage its culture more deliberately. For example, Joe Gebbia had become concerned that as the company grew, it had become less open to dialogue. To encourage more discussion, he invented the notion of 'elephants, dead fish and vomit'. As Gebbia explains: 'Elephants are the big things in the room that nobody is talking about, dead fish are the things that happened a few years ago that people can't get over, and vomit is that sometimes people just need to get something off their mind and you need someone to just sit there and listen'.⁴ All three need to be aired. Airbnb also established a series of annual meetings called One Airbnb, bringing together employees (called 'Airfam') from all around the world to the San Francisco base for four-day conferences at which everyone can meet the founders, discuss strategy and also talk about both their work roles and their hobbies. The company has 'ground control' staff in every office in the world dedicated to making the company culture 'come alive', organising pop-up birthday celebrations, anniversary parties or baby showers. The company is rigorous in its recruitment policy, committed to hiring 'missionaries, not mercenaries'.

At the same time, founders Joe Gebbia, Brian Chesky and Nathan Blecharczyk had begun to ask themselves again: 'What is our mission? What is the big idea that truly defines Airbnb?'. As they recalled in their own words: 'It turns out the answer was right in front of us. For so long, people thought Airbnb was about renting houses. But really, we're about home. You see, a house is just a space, but a home is where you belong. And what makes this global community so special is that for the very first

time, you can belong anywhere. That is the idea at the core of our company.⁵

Airbnb in 2016

In 2016, Airbnb had over 1.5 million listings in 34,000 cities in 192 countries, with 40 million total guests. Anyone anywhere in the world can list spare space from a room to a tree house, from a castle to an island in Fiji, with prices ranging from \$50 to \$2000 per night. Airbnb received 30 million page views per month. The headquarters' walls were covered with world maps dotted with hundreds of coloured pins, charting world domination. Airbnb was so popular that one of their rooms was booked every two seconds.⁶

The company was now focused on the whole travel trip with an emphasis on delivering local experiences. This focus on hospitality was not just about where you stay, but what you do – and whom you do it with – while you're there. To this end they introduced Airbnb Neighbourhoods and local lounges, partnering with local coffee shops that can offer free wifi, a comfortable setting and local guidebooks. They also acquired a small start-up that connects guests with locals who can answer their questions. They also offer cleaning services.

Airbnb was providing a strong challenge to hotels with prices 30–80 per cent lower than local operators. San Francisco hotels were having to slash prices to protect their occupancy rates. Incumbents in the industry fought back by arguing Airbnb were dangerous and unsafe in terms of health and safety and quality assurance as it was unregulated. Although one must have a permit to rent for under 30 days, San Francisco residents were still illegally listing personal homes and apartments. Similar problems were being experienced in New York where an 'illegal hotel law' was passed preventing people from subletting apartments for less than 29 days. There was also a question mark over hosts not paying tax on earnings.

During 2016, Airbnb redesigned its website and apps with subtle animations and flashier imagery. This huge rebranding represented a transition from a hotel service to a lifestyle brand. Airbnb wanted their logo to be seen on a variety of products, houses and businesses, so people understood that owners supported their ideal and their brand. Airbnb's focus was now firmly on 'belonging'. This rebranding may not have been before time, as competition

was brewing in the US from vacation rental site HomeAway Inc. (owned by Expedia), Roomorama, HouseTrip, Flipkey and Travel Advisor holiday rentals. Indeed, websites have sprung up such as www.airbnbhell.com that list a string of internet accommodation providers. Nonetheless, at the time of writing Airbnb was rumoured to be the hottest IPO (an initial public offering of its stock to investors) tip for 2016.

References

1. Salter, J. (2012) 'Airbnb: The story behind the \$1.3bn room-letting website', *The Telegraph*, 7 September; Lee, A. (2013) 'Welcome to The Unicorn Club: learning from billion-dollar startups', *TechCrunch*, 2 November, <https://techcrunch.com/2013/11/02/welcome-to-the-unicorn-club/>
2. A ratio of price/sales to revenue growth rate gives Airbnb a figure of 24.6 against Marriott at 19.2, Wyndham at 34.1 and Expedia at 12.2 (Guest post, 'Why that crazy-high AirBnB valuation is fair', www.valuwalk.com, 1 January 2016).
3. <https://medium.com/@bchesky/dont-fuck-up-the-culture-597cde9ee9d4#.5wd5kwtdm>.
4. B. Clune, 'How Airbnb is building its culture through belonging', *Culture Zine*.
5. <http://blog.airbnb.com/belong-anywhere/>.
6. Zacks.com, 'Investing in resting: is Airbnb a top 2016 IPO candidate?', 11 December 2015.

Questions

- 1 Sticking to the 35-word limit suggested by Collis and Rukstad in Section 1.2.3, what strategy statement would you propose for Airbnb?
- 2 Carry out a 'three-horizons' analysis (Section 1.2.1) of Airbnb, in terms of both existing activities and possible future ones. How might this analysis affect its future strategic direction?
- 3 Using the headings of environments, strategic capability, strategic purpose and culture seen in Section 1.3.1, identify key positioning issues for Airbnb and consider their relative importance.
- 4 Following on from the previous questions and making use of Section 1.3.2, what alternative strategies do you see for Airbnb?
- 5 Converting good strategic thinking into action can be a challenge: examine how Airbnb has achieved this by considering the elements seen in Section 1.3.3?