Digital Business (BMSP6002)

Assignment 2

(Bing, 2021)

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Introduction

The aim of this report is to evaluate Airbnb business model of the sharing economy. It will include background information on how the business works, what systems and tools they use to be successful and to their customers. Also what have they done to change their business overtime with challenges they have had to face such as keeping up with the rules and regulations and with many competitors to beat. It will also show the improvements overtime with services they can now offer that they weren't able to before. The aim is to cover their strategy as a business and to create a business model canvas for Airbnb. The GSM and SFF will be explained and how Airbnb will benefit from using these tools for strategic planning.

Airbnb's Landscape

Airbnb's Business Model

As Airbnb allows guests to connect with hosts all over the world to be able to book short term accommodation, Airbnb's business model is best described as a multisided platform. Airbnb is an online marketplace only that is easy to use 24/7 with numerous accommodations that will suit everyone and allows guests to find a place that suits their budget. Airbnb makes a profit by charging a guest service fee by using their website and charging the hosts a renting fee and a service fee (Pereira, 2022).

They have provided a place where people can share a space within their home and according to Hudgens (2022) Airbnb is an example of the sharing economy. They also want to create value, they allow hosts to attract numerous guests. Airbnb aims to satisfy their guests, hosts and third party providers (Dolnicar, 2018). Timmers (1998) states that the business model is 'an architecture for the product, service and information flows, including a description of the various business actors and their roles'.

Business Model Canvas

By using the business model canvas tool allows businesses to look further into opportunities to grow and to gain new ideas. It can also allow a business to view what could potentially impact them (Joyce & Paquin, 2016). Osterwalder & Pigneur (2010) states that a business model can be beneficial and best explained through nine building blocks that can show how the business will make money. Below is a chart of Airbnb's business model canvas. The business model canvas is adapted from Innovation Tactics (2023).

The Business Model Canvas

Key Partners	*Key Activities*	*Value Proposition*	*Customer Relationships*	*Customer Segments*
• Hosts, guests & third-party providers • Insurance • Professional photographer for listings on the website to provide good quality photos that are eye catching • Insurance • Investors	• Keep customers satisfied • Client & hosts confidentiality • Rules and Regulations • Risk management and bad behaviour • Keep growing the platform and provide the best peer to peer network • Provide good marketing and focus on sales	For Guests: • Lots of choices for accommodation • Budget friendly • Different experiences to suit all • Guests can view hosts reviews For Hosts: • Extra income • Risk management • Platform easy to use and manage listing and dates etc. • Hosts can view the guests CV	• Safety for both hosts and guests • Respecting rules certain hosts put in place • Customer service • Updating their software so both hosts and guests have the best experience using the platform	• Guest has a variety of choice e.g., trip for business, home/apartments, child friendly or adults only. • Airbnb has certain experiences that can suit the guests needs • Hosts can put type of rentals they have available

Key Resources

- Hosts that put their listings on the website
- The online website and App and their brand
- User data
- Staff and Technology

Channel

- Social media
- Airbnb website and app
- Word of mouth

Cost Structure

- Marketing and sales
- Revenue cost
- Improvement of platform
- Administration
-

Revenue Streams

- Charging host fees of 3% or more
- Charging guests service fees between 0% - 20%

1. **Key partners** - would be Hosts, Guests as hosts provide the listing whereas guests book on the platform with a variety to choose from. To make the listing appealing and for guests to really see what they are getting for the price, photos need to be attractive and eye-catching, this would require a professional photographer. Other key partners would be investors and insurance companies.
2. **Key activities** -They would need to keep the hosts and guests satisfied by keeping their details confidential and make sure all rules and regulations are in place and followed correctly. Risk management also needs to be in place and monitoring guest and hosts behaviour. Airbnb also would need to keep all systems updated and provide a platform that is easy to use.
3. **Value proposition** - For guests, Airbnb provides a variety of accommodation to choose from with different experiences all over the world. They can provide apartments, homes and more luxury accommodation with pools and much more. Guests will also need good background on hosts with reviews as trust is important. Hosts can make extra income by renting out their spare space with an easy platform to use that allows them to select dates they have available and manage listings. They can also view guests' CV, this can help with risk management.
4. **Customer relationships** - Guests and hosts safety is important to airbnb which is why they provide a CV. Some hosts will have different rules in place to respect their property which will need to be respected. Good customer service needs to be in place providing easy ways to get in touch with Airbnb if needed whether this is via email or live chat.
5. **Customer segment** - Guests will have a variety of choices which will suit individual needs whether this is for someone on a business trip,

family holiday or a romantic break. They also provide experiences to suit certain needs and a variety of locations at a good price. Hosts can also list the type of rentals they have.

6. **Key resources** - This would be the hosts as they list their accommodations. The website and app are key resources as this is what people would use and also Airbnbs strong brand. Also staff behind the scenes such as technology engineers and user data systems.
7. **Channel** - Social media is used by most people and a great way to share the business. Also word of mouth is important as people share their thoughts and give recommendations to others. The app and website are also used.
8. **Cost structure** - Marketing and sales come under cost structure as marketing can cost a business. They would also have costs such as insurance, design cost, IT and administration costs..
9. **Revenue streams** - The company makes a profit by charging the hosts a listing fee of 3% or more. They also charge Guests a service fee between 0% - 20% (Innovation tactics, 2022).

Financial Landscape

According to Wu (2012), Airbnb brought customers in by ads that give the information of the services they offer and a new easy way to use and different locations available to travel with a variety to choose from. They invested in marketing plus infrastructure. This was a success as they received a 120% increase from searches and an increase in the amount of booking received from 800,000 to 2 million. With also a great website to use with massive improvements, revenue grew from $850,000 in 2009. In 2012 they almost reached $45 million. They were able to employ more staff with now over 500 employees in 2012. They now find them in a financial stability that will allow them to do more investments and expand in future (Wu, et al., 2012).

What have they done to change their business overtime?

They have changed what they have to offer on the platform from hosts offering their private spaces at home to luxury accommodation, apartments and much more that will widen their target groups and bring more people in. They also offer places with different experiences and places to suit those who want family friendly accommodation or something for a business trip (Mody & Gomez, 2022).

Airbnb's growth increases every year with over 4 million of hosts listing on their website. To keep being successful Airbnb aims to reach out to property developers in request to turn their building into Airbnb accommodation only. They already have Niido buildings in places such as Nashville and Orlando (Mody & Gomez, 2022). Niido means a hotel with a more homely feel to it where guests can have a longer stay. It will give people the choice of a short term stay or a permanent home, it will include a gym, swimming pool and more inside. Those who purchase an apartment will be able to put their accommodation up on Airbnb. Niido and Airbnb will then take 25% of the revenue (Carey, 2018).

The Covid pandemic hit all businesses hard while the travel industries struggled with rules put in place, all travel was put to a stop. This resulted in people cancelling bookings and Airbnb had to deliver the sad news to 25% of their staff, with the travel industry on hold they had to lay off employees. The pandemic was new to everyone which forced businesses to adapt and make changes. The founders decided to focus on what's important to them which is their business of hosting. They went back to the beginning to realise what Airbnb is about and looked into things such as investments whilst they had the time they realised some investments did not truly support the host community which they were able to get rid of. When the pandemic eased and people were allowed to travel in certain areas but staying local this worked in advantage to Airbnb and turned the business around. As people could not travel for quite some time there was a huge spike in people travelling locally, Airbnb put rules in place for hosts and guests to follow for Covid 19 (Taulli, 2020).

‘Airbnb used more than $1 billion of its funding to provide refunds. There was also a commitment of up to $250 million for those hosts that were impacted by the cancellations’ (Taulli, 2020).

<u>What Systems and Technology are they using?</u>

Technology plays a big role in building Airbnb, they created AI technology which reduces friction, it improves searches and also stops fraud, this helps hosts to set pricing. They firstly built machine learning models to improve their search and explore capabilities. This would allow guests to find what they are looking for. They created new ways for hosts to decide on pricing which will get them bookings for a reasonable price to suit a certain time of the month. The search engine will allow guests to filter the search to what they are

looking for by putting in a maximum budget they are willing to stay and in which area. As a business, changes will happen continuously and some of the changes they aim to make is to improve images that hosts upload, they will make changes to the search using NLP that will allow guests to search more in depth for example if they wanted an accommodation close to the beach rather than only giving an option for them to search for a city (Airbnb, 2018).

Airbnb also uses 200 Amazon Elastic Compute Cloud which allows them to analyse and process data of fifty Gigabytes. They also use Amazon Elastic MapReduce and Amazon Simple Storage Service to keep static files and also pictures. Airbnb also uses Amazon CloudWatch which observes server resources and EC2 assets by using AWS Management Console (AWS, 2023).

Airbnb's target groups

The main target for Airbnb would be for those who love to travel and explore different countries, such as backpackers who need affordable short term accommodation. People who travel for business and also families as Airbnb has expanded and now offers accommodation with swimming pools, this allows families to have more space. Another one would be for couples who are looking for a romantic break or for people who are looking for a different experience. Also customers who like the homily experience as this can be more comfortable, it can also feel more personal where they can meet the hosts and find out more about the area they are in and where to visit to be able to get the best experience on their travels (Amplify XI, 2022).

Problems

Airbnb needs to make sure Rules and Regulations are set and followed by different countries. They need to be careful of any lawsuit made against them. In some areas renting an accommodation for less than 30 days is illegal (Wu, etal., 2012). Using the UK Rules and Regulations Dolnicar (2018) states that if a host wants to rent their homes for longer than 90 nights a year would require planning permission and they would also need to pay council tax, this will stop the reduction in long-term rentals.

Competitors

Booking.com is one of Airbnb's competitors; they offer hotels and flights plus more. They have 43 languages to choose from on the site with millions of

reviews. In 2020 they shared the news that they will offer monthly and weekly rentals due to Covid-19. They made £11 billion in revenue in 2021 with 15,000 employers over the world. Booking.com also work with big brands such as KAYAK, Agoda and RentalsCars.com

However according to Rozenbilt (2020) Airbnb has better affordable pricing compared to Booking.com, they also offer accommodation in the best locations that will place you close to everything you need as budget hotels will be further away out of town which will mean people need to travel into the location they want to visit. Also hosts from Airbnb can recommend places for their guests to visit to make sure they get the experience during their stay. Guests can also get to know their hosts which will build trust which could make a guest book again. Booking private accommodation with Airbnb also has facilities such as a kitchen and a washing machine, great for those on a budget that would prefer to cook their own food and be able to do their laundry instead of paying extra cost at hotels.

Challenges

There are some challenges Airbnb would need to face such as custom relationships and if they are meeting modern challenges, also how they are managing behind the scenes with the booking systems and much more. Another one is to make it easy for hosts to use and for guests. Airbnb provides a Regulation page for hosts to read to see if they can list their accommodation, they need to verify their ID and create their profile with information such as room size etc. Once everything is in place and a host has listed their accommodation they can then talk directly to the guest. Airbnb makes it easy to leave reviews and to add anything they want for guests to see. Airbnb has a 24/7 support system in place and safety services. They make it easy for guests to use and find the best price for their chosen location (Sraders, 2018). A recommendation for Airbnb would be to put something in place to stop last minute cancellations which doesn't give hosts enough time to find someone else to replace them instead of losing out on income.

P2P

According to Wu (2012), Airbnb is the market leader in the P2P online marketplace. Airbnb does face some competitors as they are very similar in what they have to offer. The P2P economy is expanding, with businesses offering accommodation at a low cost and a variety of listings.

Strategy/SFF

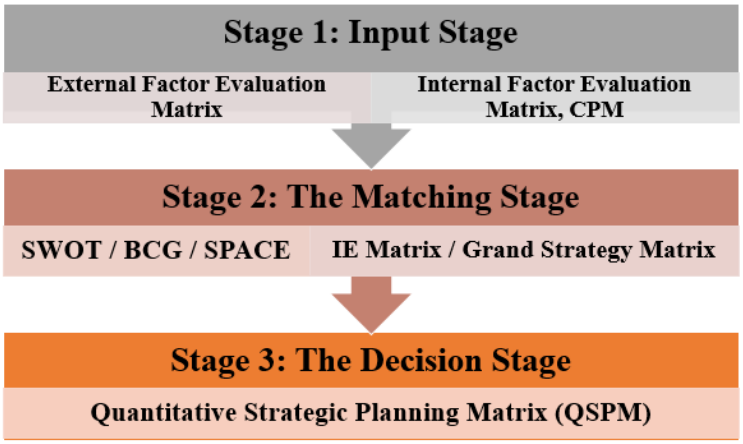
Airbnbs strategy framework follows the 4Ps. Which means they cover Price, Product, Place and Promotion. The strategy helps them to see where they stand against competitors and reach its goals and objectives.

However the SFF strategy framework was created by David businesses can use this tool to help with decision making. There are 3 stages to this tool.

Stage 1 - is for information such as Internal Factors, External Factors and Competitive Profile Matrix. This will allow a company to evaluate things such as culture, information regarding competitors, social and more. It can also help a business vision their strengths and weaknesses.

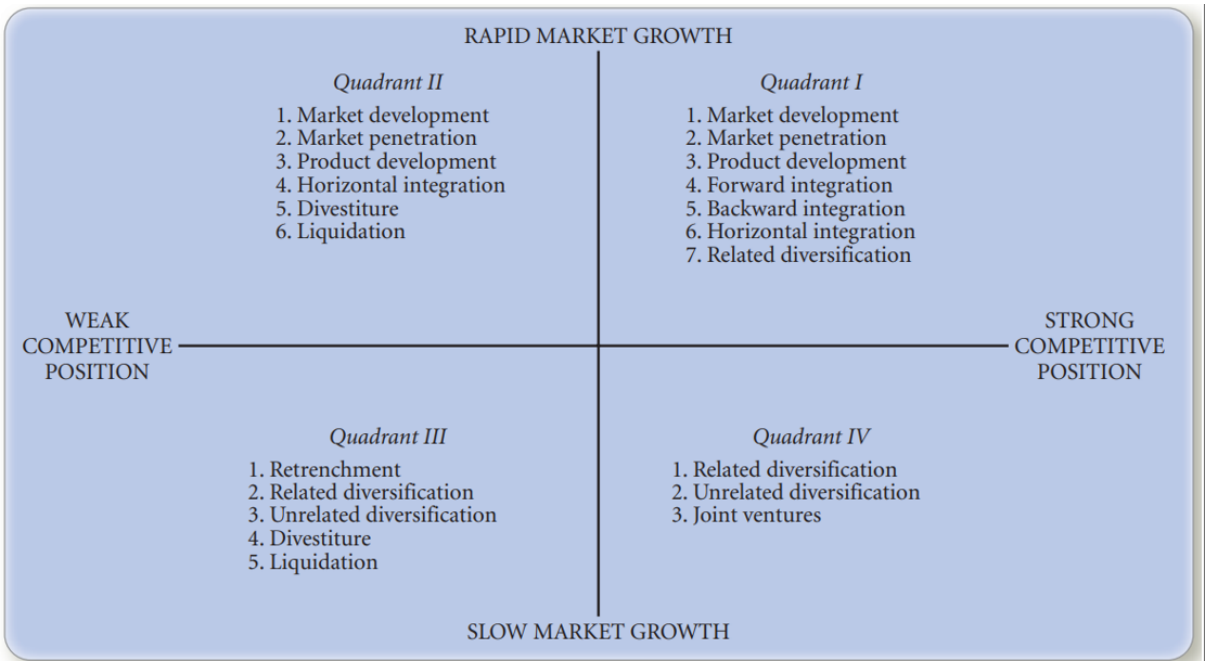
Stage 2 - this allows the company to recognise their opportunities and threats, they can create a different strategy by looking at stage 1. They can create what action they will need to take next.

Stage 3 - This is where stage 1 and stage 2 come together to evaluate changes needed to reduce any threats and weaknesses and what opportunities they have. This aids strategic thinking and planning for the future (Torlak & Sanal, 2007, P. 83-89).



GSM

The GSM is an important part of the Stage 2 of the SFF. According to Torlak the GSM is to evaluate the dimension of the competitors and how they are growing as a business. Each section of the GSM is listed with information for businesses to consider when planning.



On the GSM Airbnb would be placed in Quadrant 1 as they have a strong market development and a strong competitive position in an industry that keeps on growing, Airbnb need to continue this to keep above competitors. They have created a network that brings communities together and allows users to have the best experience. They make changes when necessary by improving development and hold a strong brand name.

By using the SFF this would benefit Airbnb to keep evaluating competitors, weaknesses, strengths, threats and opportunities to stay successful and to keep growing as a business. There will be risks when applying these tools but as a company they need to outweigh the risks with the benefits and understand making choices do come with risk, therefore the tools are essential to strategic thinking to make the correct choices.

Conclusion

From researching Airbnb’s Landscape and how they deal with problems, competitors, challenges they seem to have a good strategy in place and ain't afraid of change. They limit risks and although there are many competitors to be had they still seem to keep above it all. They have a strong network and brand where they give hosts and guests what they want with an easy platform. The BMC was created to evaluate Airbnb’s business model and areas for the company to grow and possibilities that could impact them. Although they follow the 4Ps for strategic planning, the SFF would be beneficial for the company to use for external and internal factors, as well as looking into competitors, strengths and weaknesses it also evaluates future opportunities. They can also evaluate risks and limit these to outweigh the benefits. With the GSM, Airbnb stands strong against competitors and has an advantage for future growth in the market that keeps expanding.