

Report

Luke Atkinson 2000643

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Report critically examining Airbnb as an example of the sharing economy

Executive Report

This report has been produced with an aim to critically examine Airbnb as an example of the sharing economy. Two sources will be outlined, in addition to many others, to provide context for the examination of the company.

Li and Tabari call the sharing economy a ‘platform that allows groups and individuals to make money from underutilised resources’. It is defined by Alarçin and Kirçova (2020), as ‘the traditional sharing, bartering, lending... and exchanging activities that are redefined through technology and communities’.

Airbnb Landscape

Wu, Lee and Reynard’s case study provides a helpful summary of Airbnb’s free-to-access platform, revenue streams from customers and hosts and the issues facing the company (Wu et al., 2012). Li and Tabari’s journal article provided a wealth of information about Airbnb’s growth echoing a trend in the sharing economy and its value proposition for both hosts and customers, as well as its relatively young (primarily 25-34) user base. Airbnb’s key competitors are Vrbo (an Expedia subsidiary), Booking.com, Flipkey (a TripAdvisor subsidiary), 9Flats and Plum. The company in 2021 made \$5.99B in revenues; in comparison to the revenues of the conglomerates Booking.com at \$10.96B and Expedia at \$8.598B, the company is enormously successful.

Business Model Canvas

This is a simple way to document a company’s offering, customers, infrastructure and financial structure (Becker & Böcker, 2021). It provides a valuable insight into Airbnb’s inner workings although is insufficient if used alone — therefore is used here with the additional context of Airbnb’s Landscape.

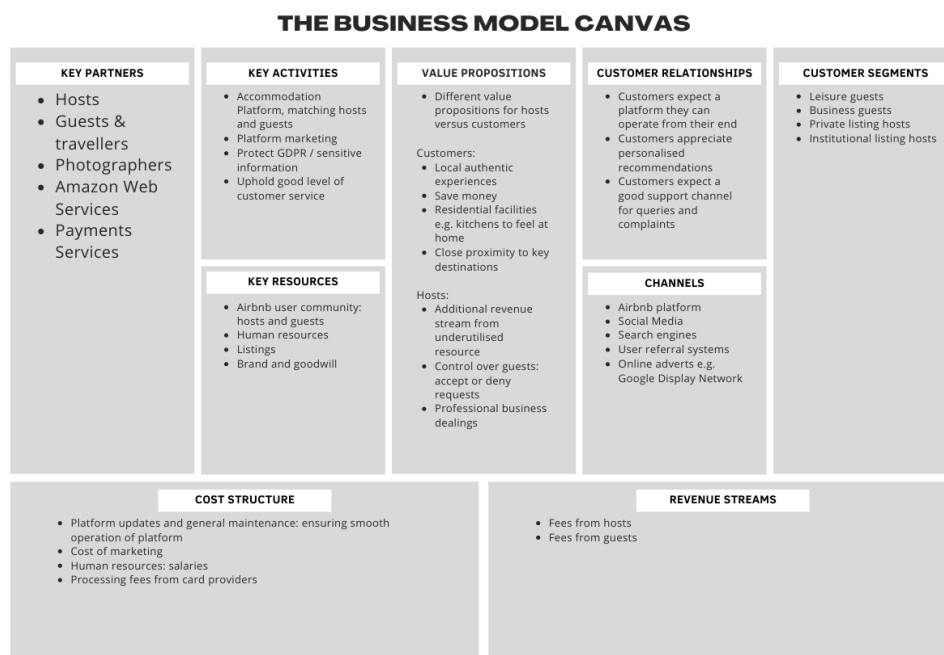
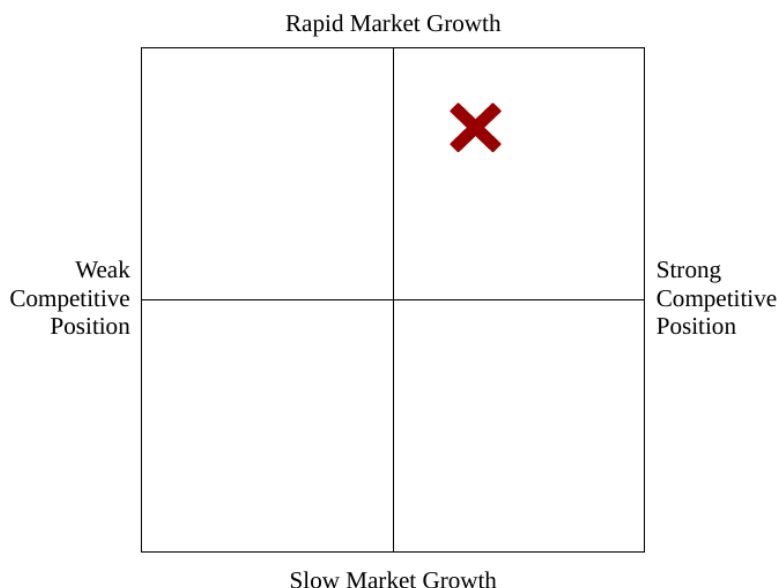


Image adapted from template by Malena Indart (n.d.) and information from SlideModel.com (n.d.) and BusinessStrategyHub (Parker, n.d.)

Grand Strategy Matrix (GSM)

The GSM is one of three stages of the Strategic Formulation Framework, in the same category as the SWOT and BCG matrices, two famous examples of competitive analysis tools. It is split into four quadrants and two dimensions.



Airbnb is in the quadrant for rapid market growth and a strong competitive position — an indicator of a good performance. The GSM offers solutions for each quadrant to tailor solutions to every situation: the most applicable solution for this quadrant would be market development — tapping a previously untapped market (The Economic Times, n.d.) — to gain new customers in the most cost-friendly manner.

Systems

The three systems covered in this report are Customer Relationship Management (CRM), defined by Chaffey (2007) as an approach to the building and maintenance of relationships with customers; Supply Chain Management (SCM) defined by Chaffey as the harmonisation of all of an organisation's supply activities, both upstream and downstream; and Enterprise Resource Planning (ERP), defined by Markus et al. as software which let certain business units within an organisation share information.

Airbnb makes good use of both CRM and ERP with a range of software tailored to its hosts. SCM is less used and not well documented in terms of usage by Airbnb. As a platform provider, Airbnb simply run a platform online and let its hosts and customers arrange the sales with help from the company.

Conclusion

This report has shown that the sharing economy is a progressive and rapidly-expanding market: Li and Tabari have demonstrated the existence of a young user base; the BMC shows a simple yet effective pair of revenue streams; the GSM shows the company's rapid growth and good competitive standing; and the brief look at the company's systems indicates strong usage of contemporary technologies for streamlining operations. This progressive business attitude is reflected in the entire sharing economy. All that Airbnb must consider to remain on top is its offering being fairly replicable by other firms — in such a forward-thinking market, a smart competitor may outdo even one with the first mover advantage such as Airbnb.

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Introduction

This report has been made with the aim of critically examining Airbnb as an example of the sharing economy. The following two sources will be outlined and used to aid in the examination of Airbnb, in addition to various other sources:

1 Airbnb case study by Wu, Lee & Reynard (2012)

2 Impact of Airbnb on customers' behaviour in the UK hotel industry (Li & Tabari, 2019)

To examine Airbnb, it is important to understand what the sharing economy is. Li and Tabari call it a 'platform that allows groups and individuals to make money from underused resources' (Li & Tabari, 2019;

PriceWaterhouseCoopers, 2015). It is defined, in a literature review conducted by Alarçin and Kirçova (2020), as 'the traditional sharing, bartering, lending... and exchanging activities that are redefined through technology and communities'.

Airbnb Documentation and Landscape

This section will outline the primary sources used for this report into Airbnb, as shown in the aforementioned section. What follows will be a description and critique of both sources used.

Case Study: Wu, Lee & Reynard

The first source to be outlined is the Airbnb case study by Wu, Lee and Reynard of UCLA (2012). The case study has been summarised below:

Airbnb provides a community marketplace where membership is free; a charge is only applied when a guest checks in. The process is uncomplicated for hosts too; they receive a notification of a guest expressing interest, which they can approve or deny.

Although the company is the market leader, it faces competition from several companies experiencing similar sales booms. Airbnb struggles to maintain a competitive advantage because competitors can easily copy Airbnb's business model. Furthermore, there exists a legal ambiguity with Airbnb's services; in some states, renting a property for under 30 days is illegal.

The company has three options to generate a sustainable competitive advantage and maintain growth:

1. Establish itself in its market. Aggressive advertisement could increase its untapped customer base. Due to the company's lack of competitive positioning, any edge it can gain is crucial. Airbnb can either use lobbying to address its legal issues or simply avoid certain states.
2. Integrate its platforms with other channels. Airbnb could create partnerships with outside suppliers to combine multiple services; both Airbnb and its partners will benefit from increased traffic and usage. Examples include car rentals, airline agencies and review platform services.
3. International expansion. This is the best priority as the market for peer-to-peer accommodation is expanding internationally. This means creating offices in major global cities and localising marketing and customer service, so that untapped customers are not dissuaded by a lack of language localisation.

This source provides a good summary of Airbnb's service and the issues facing the company at the time of writing. The statement on the company's legal issues is corroborated by a comprehensive literature review which stated that the short-term rental regulations in five global cities dictated certain limits on short-term rental leasing annually (Guttentag, 2019; Crommelin et al., 2018).

Article: Li & Tabari

The second source to be outlined is the journal article by Li and Tabari (2019). This article was made to identify the level of threat that Airbnb poses to the hotel industry, with a purpose to mitigate said threats. A summary of key points from the article is below:

Airbnb's value has grown rapidly over the 8 years to 2019, echoing a trend in the sharing economy. The continued development of IT has enabled this fast-paced growth of Airbnb's platform. In the sharing economy, rival firms are able to rapidly enter the market, leading to the erosion of profitability.

Airbnb is an online platform primarily for short-term rental, boasting an array of listings. In 2015, the company facilitated 425,000 guests per night, 22% higher than Hilton Hotels worldwide. Technology has been the key driver of Airbnb's continued development because the platform relies on online transactions to function.

It is argued that practicality is no longer the ultimate purpose of consumption by consumers; consumption is now additionally for generating experiences. Customers choose Airbnb because of the competitive prices achieved by the fixed costs, minimal labour and untaxed extra income that hosts enjoy. Furthermore, the local experiences that Airbnb advertises also appeal to the desire for authenticity. The average rating for Airbnb on TripAdvisor is 4.7 stars, although the accuracy of these ratings has been called into question as different websites portray the company differently.

From 100 questionnaires completed, it was found that males represented a significantly higher proportion of the Airbnb customer base and that the 25-34 age band was the largest group of users. All interviewees felt more comfortable with Airbnb than with traditional hotels, primarily for the experience of local culture and secondarily for the potential for saving on expenditure and feeling more at home.

This article provided a wealth of information for use in this report although, for the sake of brevity, much content was removed or shortened in the creation of the summary.

Tabari is a lecturer at Cardiff University who has written a variety of articles about tourism across the world. Given her experience with global tourism, her insight into Airbnb is of especially good use in this report. Despite this, the fact that this article was produced to generate ways of drawing customers *away* from Airbnb may imply a bias against the company, although the article does a good job of ensuring neutrality in its reporting of facts.

Landscape

Statista reports that, as of 2021, the sharing economy is valued at \$113B — forecasted to skyrocket to \$600B by 2027 (Statista Research Department, 2023). Major players in the sharing economy are Airbnb, Uber, Fiverr and Kickstarter, among others (Robinson, 2019; Neighbour Blog, 2018). Demary (2015) noted that the market exhibits traits of an oligopoly structure. A Lodgify article (n.d.) reported that Airbnb's key competitors are Vrbo (an Expedia subsidiary), Booking.com, Flipkey (a TripAdvisor subsidiary), 9Flats and Plum. Airbnb in 2021 made

\$5.99B in revenues (Statista, 2022a), compared to Booking.com's \$10.96B (Statista, 2022b) and Expedia's \$8.598B (MacroTrends, n.d.) for the same year, showing that the company is demonstrating a level of success almost on par with that of the market's most established conglomerates.

Business Model Canvas (BMC)

The Business Model Canvas (BMC) was developed by Osterwalder and Pigneur in the 2010s; it allocates each of the nine steps of the traditional value creation process to the four most important areas of a company: offer, customers, infrastructure and financial structure (Becker & Böcker, 2021).

The key advantages of usage of the BMC are simplicity, an understandable layout and easy interpretation by interested parties, both internally and externally. The main disadvantage is insufficiency in providing information if used alone (Amanullah, Hadi & Ibrahim, 2015; Becker & Böcker, 2021). Becker and Böcker explain that some disadvantages are misattributed to the BMC: namely that it is a relatively new model and thus not properly trialled, when the model was actually created in 2011; that there is no comparison with models of competitors, when the focus of the BMC is actually placed on the user's own model; and that it can be too complicated when several customer segments exist, when the appropriate usage of the BMC involves creating a separate canvas for each. These misattributions can be ascribed to improper knowledge and usage of the BMC.

The following image is of a BMC for Airbnb, produced with Canva. The components are as follows, taken from Ojasalo and Ojasalo's (2018) article regarding the model:

- Key partners: the network of partners and suppliers that enables the business model to function. Airbnb's are its hosts and guests; photographers, which play a part in hosts' marketing efforts; Amazon Web Services, which Airbnb uses to this day (AWS, 2021) and payment service providers.
- Key activities: what the business must carry out to ensure proper function of the business model. For Airbnb, these are managing and marketing its platform, protecting users' sensitive information and upholding a good level of customer service.
- Key resources: the assets which are necessary for appropriate function of the business model. This comprises Airbnb's user community, staff, listings on its platform and any goodwill associated with the brand.
- Value propositions: the product and/or service offering which provides value for the customer. For the host, it is primarily making money from an underutilised resource; for the guest, it is fulfilling a need for an authentic local experience and saving money.
- Customer relationships: the types of relationships made and dealings done with customers. Airbnb's guests expect a streamlined and appealing platform and appreciate recommendations personalised to match their needs, as well as a good support system in case of any queries.
- Channels: how the business interacts with the customer. Airbnb interacts with its user base through the platform itself, on social media and search engines and through advertisements such as Google ads.

- Customer segments: the different categories of customers the business aims to serve. These consist of guests both for leisure and for business reasons, private hosts (homeowners, etc.) and institutional hosts (companies).
- Cost structure: a description of all expenses incurred in the carrying out of the business model. These are primarily maintaining the functionality of the platform, the cost of marketing and human resources, and any processing fees applied by payment services.
- Revenue streams: the way in which revenues are generated from the customer. Airbnb's revenue stream is made up of fees applied to the charges incurred to hosts and guests on rentals.

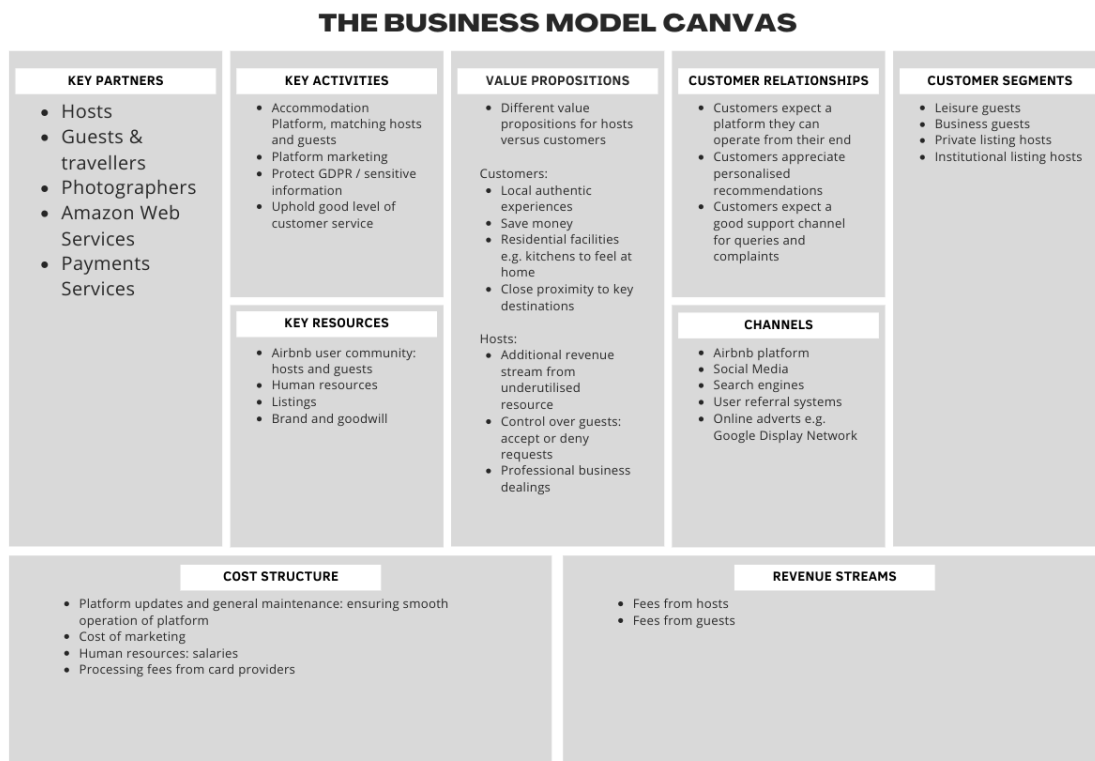


Image adapted from template by Malena Indart (n.d.) and information from SlideModel.com (n.d.) and BusinessStrategyHub (Parker, n.d.)

The BMC provides a valuable insight into the way in which Airbnb's model works. Especially useful is the value propositions section, for the insight it provides into how Airbnb fulfils the needs of its platform base. The way in which Airbnb meets these needs could arguably be reflected in the methods of different companies as well. Other sharing economy businesses undoubtedly promise their customers cost savings when sharing instead of buying outright and are likely to also promote their services to other 'sharers' as a way to simplify the process and expand their reach.

Despite this insight, Becker and Böcker's (2021) disadvantages of Airbnb — primarily the insufficiency of information provided if used alone — come true here; this model is best paired up with another source of information. Luckily, the Airbnb Documentation chapter provided necessary information, which enables the BMC to act as a supplementary source with the context of the former. Without this chapter, the BMC would have provided little information of use in the context of the wider sharing economy.

Strategic Formulation Framework: Grand Strategy Matrix

The Grand Strategy Matrix (GSM) represents part of the three stages of the formulation framework. These three stages each play a role in the formulation of specific strategies, and are composed of the following matrices and tools (Lijie, 2019):

- Input stage: EFE Matrix, CPM, IPE Matrix
- Matching stage: SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, GSM
- Decision stage: QSPM

As shown, the Grand Strategy Matrix is in the same category as the SWOT and BCG matrices — two useful tools for quantifying competitive standing. The GSM is based on two numerical dimensions: competitive position and market growth, divided into four quadrants. Each quadrant features its own solutions and usage of the GSM is intended to offer realistic strategies (Kebede, n.d.). Airbnb's GSM is below.

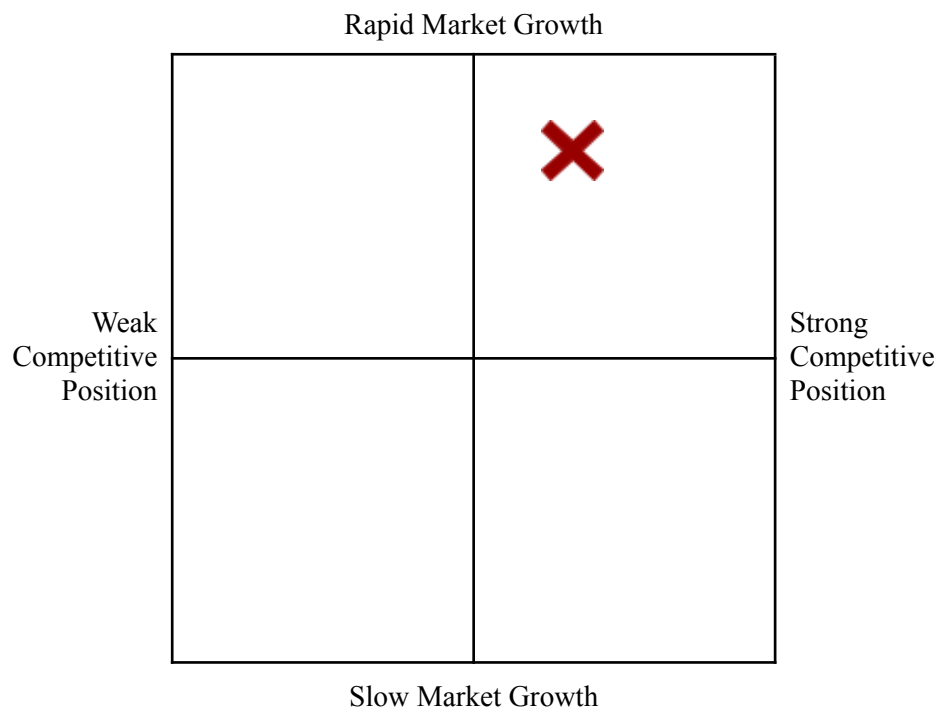


Image adapted from Mohie Ismail's (2017) MBA slideshare on Airbnb's strategic plan.

The fact that Airbnb is in the quadrant for rapid market growth and strong competitive position indicates that the company is doing well. This state can also be extrapolated to the sharing economy in general; both Wu, Lee and Reynard's case study and Li and Tabari's article mention booms in the sharing economy. The strategies suggested to Airbnb as per the GSM are as follows:

- Market development
- Market penetration
- Product development
- Integration: forwards, backwards, horizontal

- Diversification

Of these strategies, the most realistic for the company to choose would be market development — vertical integration is unrealistic as a platform provider beholden to AWS, while diversification would be difficult and too costly for Airbnb whose image is cemented as a peer-to-peer accommodation platform. Of the remaining three strategies, market development seems the most feasible as a way to capture new markets while avoiding the cost of gaining customers in an increasingly saturated one. Market development is a process of tapping a previously untapped market (The Economic Times, n.d.), which Airbnb could consider doing by attempting to capture a new segment such as purely luxury rentals.

The field of information regarding the GSM is not expansive and many articles on the subject refer back to the same small amount of sources for their explanations and usages of the matrix. Even Airbnb's strategic usage of the GSM was difficult to document: only the source from Ismail (2017) was found when searching. Maybe this is due to a lack of a need for extensive documentation when other, equally useful matrices exist. Regardless, more extensive documentation of this matrix would definitely help the GSM to become more useful for use in evaluating Airbnb's market position.

Systems: CRM, SCM, ERP

The last chapter of this report will look at Airbnb from an Information Systems perspective; this is a large field, so the scope will be narrowed to encompass Customer Relationship Management (CRM), Supply Chain Management (SCM) and Enterprise Resource Planning (ERP). Information Systems itself is defined as a means of managing information by manipulation, storage and display, among other things (Jonasson, 2002).

The three systems covered in this chapter are as follows:

- CRM is defined by Chaffey (2007) as an approach to the building and maintenance of relationships with customers; the goal of CRM is to convince the customer that value is added to their purchase.
- Chaffey notes that SCM involves the harmonisation of all of an organisation's supply activities. This is split into the upstream supply chain, between the organisation and its suppliers, and the downstream supply chain, between the organisation and its customers.
- ERP systems are defined by Markus et al. as software packages which let certain functional units in an organisation share business information. The purpose of such a system is to standardise information across units to avoid cloned information becoming out-of-date.

Because these systems all fall under the umbrella of information systems, much of these activities will closely align with those of Airbnb. Akshay (2014) noted that Airbnb uses an elaborate set of CRM systems to maximise both host and guest satisfaction: automated emails for guests prior to booking in and the app Twilio to connect with hosts.

Regarding ERP, Airbnb makes use of a variety of software to streamline hosts' dealings with customers. It uses the property management systems WuBook, Guesty and Eviiivo for listing management and reservations and the channel management systems Track, Rentals United and Octorate for keeping listings and pricings up to date (Airbnb, n.d.).

As a platform provider, emphasis is more placed on the usage of CRM and ERP than SCM for Airbnb; although the SCM remains an important asset for many businesses, companies such as Airbnb and its competitors perform a service online and primarily let the hosts do the rest.

Conclusion

This report set out to critically examine Airbnb as an example of the sharing economy. It has been shown that the sharing economy is a forward-thinking and rapidly-expanding market. Li and Tabari's article shows that Airbnb's user base is primarily young (25-34) and their needs are better met by Airbnb than by traditional hotels. The BMC shows a simple yet effective pair of revenue streams; the GSM highlights the company's rapid growth and solid competitive standing; and the look into Airbnb's systems shows a deep pairing with IT for efficiency — proof of it making full usage of contemporary technology. This progressive attitude to doing business is reflected in the sharing economy as a whole. The only thing that stands left for Airbnb to consider is its replicability by other businesses: in such a forward-thinking market, it may not take much for another to outdo Airbnb.

This report was written firstly by examining the case study and article in the documentation section. These articles provided a wealth of information about Airbnb and enabled contextual analysis of the company; these two sources have therefore been invaluable in the creation of this report.

Word count: 2734

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