

Re-establishing Airbnb for Growth: Building a Better Brand

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CBC Case Competition

Our Agenda for Today

2

- Problem Statement

- Recommendation

- Analysis

- Risk Mitigation

- Implementation

- Q & A

The Problem

3

How can Airbnb address the transaction concerns of clients and prevent further decline of brand image?

- Why is this important?
 - Failing to address client concerns will lead to decreased revenue
 - Allowing brand image to decline will hinder future growth
- What caused the problem?
 - Unsatisfactory transactions
 - Major negative publicity raised concerns

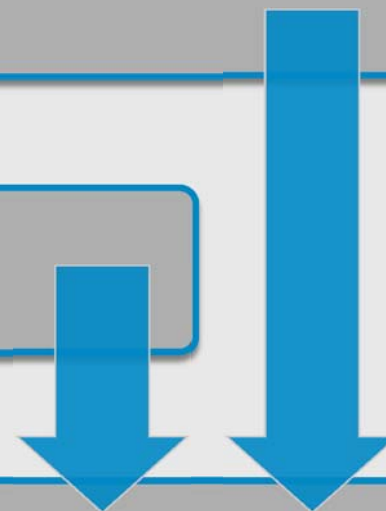
We Recommend

4

Renovating the guest rating/incentive system

Establishing a powerful media presence

Creating a more robust revenue model



Market Position

5

Airbnb is a **premier** market player

- Number of rooms rented increased to 2 billion within four years

Profitable Industry

- Low supplier bargaining power and industry rivalry
- Moderate threat of new entrants, threat of substitutes, and bargaining power of buyers

Competitive Advantages

- Substantial funding
- Large, global customer base
- Recognized Brand

Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

How the Guest is Rated

6

Credentials	Points Gained
Upload 2nd government issued ID	30
Upload 1st government issued ID	20
Login with social network account	10

Points	Level	Commission Rate
100 and above	★★★★	6%
60 and above	★★★	8%
30 and above	★★	10%
10 and above	★	12%
0	-	14%

- Require a full profile to keep a membership
- Collect critical background information
- Increase social present
- Differentiate customers
- Price customization
- Access control
- From level 3 to level 4, renters can either increase the number of fair reviews or buy a higher level account

Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

How the Host Benefits

7

CRITERIA	CHANGE POINT	IMPACT
REVIEWS	More weightage to ratings of verified consumer	Authentic Consumer Reviews
PENALTY	No penalty : Non-acceptance Penalty : Non response	Hosts less pressurized to accept unsolicited customers
RISK	Consumer selection based on verification	Reduced risk of theft / damage
VISIBILITY	Payment system for featured postings	Customer attraction and potential revenues

KEY TAKEAWAY: Visibility provides competitive advantage

Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

How Airbnb gains

8

Revenue

- Assumption: Every level up for guests give rise to 25% more transactions. The host commissions stay at 3%.
- Marginal drop in guest commission rate increases total revenue
 - Proposed revenue model opens up new channels of growth

Market Share

- As a first mover, capturing the lions share in the market
- Scalable and Replicable model for growth

Brand Equity

- State-of-the-art operating model for safe transactions
- Reputation for maintaining security and authenticity

KEY TAKEAWAY: A robust model & multiple initiatives will help to achieve sustained growth

Problem

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Analysis

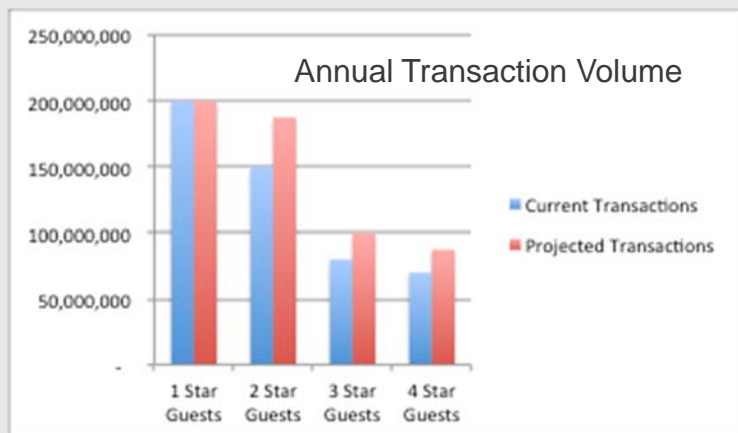
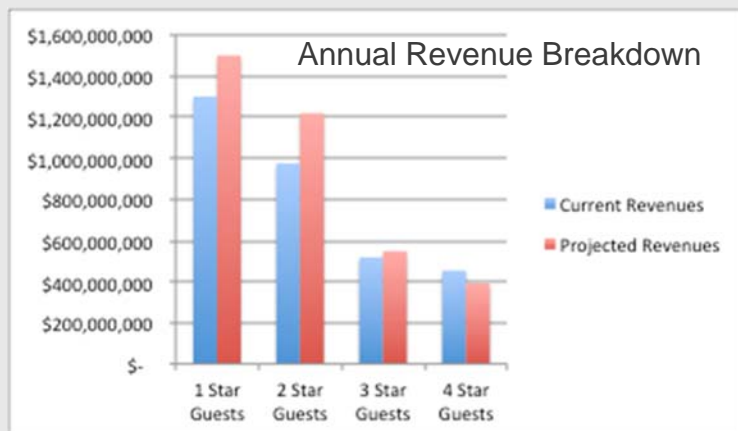
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Implementation

Q & A

Revenue Generation Model

9



Current State

- Valuation \$1B
- Total Transactions/year: 500MM

Assumptions

- Distribution of customer base is non-uniform
- Discount Rate: 10%
- Growth Rate: 3%

Projected State

- Revenue Growth: 13%
- Transaction Volume Growth: 15%

KEY TAKEAWAY: Strategic investments have potential to increase revenue and market share

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Recommendation

Analysis

Risk Mitigation

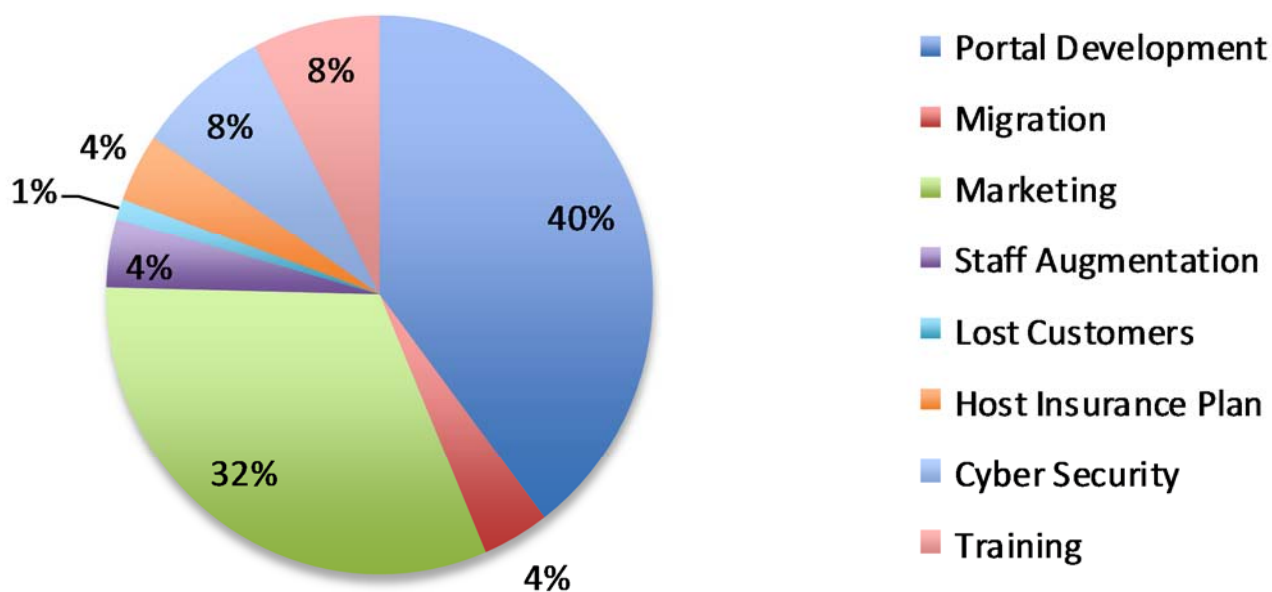
Implementation

Q & A

Investment Plan

10

Estimated Investments (\$25MM)



Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

Brand Management

11

Social Media Footprint

Monitoring Group

Sales and Marketing

Customer Connectivity



Promoters

Enhance Brand Image

- Good reviews in social media
- Reward favorable critics with star rewards

Detractors

Reduces Brand Value

- Prompt response team resolves complaints
- Compensate negative critics, if valid concern

NPS

Net Promoter Score

- Customer loyalty and satisfaction
- Helps to grow market share and overall revenue

KEY TAKEAWAY: Enables users to promote our brand with compelling content

Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

Alternatives

12

Vary Base Prices Based on Ratings

- Disadvantage: vague standards, not a fair market
- Option: vary commission rates to achieve similar result

Give Discounts for Problems

- Disadvantage: everyone has a problem with their stay
- Option: decrease commissions to incentivize guests

Background Checks

- Disadvantage: background checks are too time-consuming
- Option: use quicker verification methods

Mitigating Risks

13

Risk	Potential Impact	Mitigation
Consumer Verification Ineffective	Damages / Negative publicity	Insurance plan for Hosts and Credit hold for the guests
Roll-out and Implementation of Rating system has setbacks	Preemptive loss of market-share	Marketing and Branding for Customer retention
Information Security	Lawsuits / Consumer Trust deficit	Cyber security measures
Competitor Reaction to Airbnb verification	Divided Customer-base	Brand Equity and First Mover Advantage
Insufficient IT infrastructure	Unorganized customer database migration	Phased Project roll-out and extrapolation
Lead-time for Implementation	Opportunity costs of on-hold project	Increase staffing for Social media, Customer Service & IT Security

KEY TAKEAWAY: Risks exist but can be mitigated by strategic measures

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Recommendation

Analysis

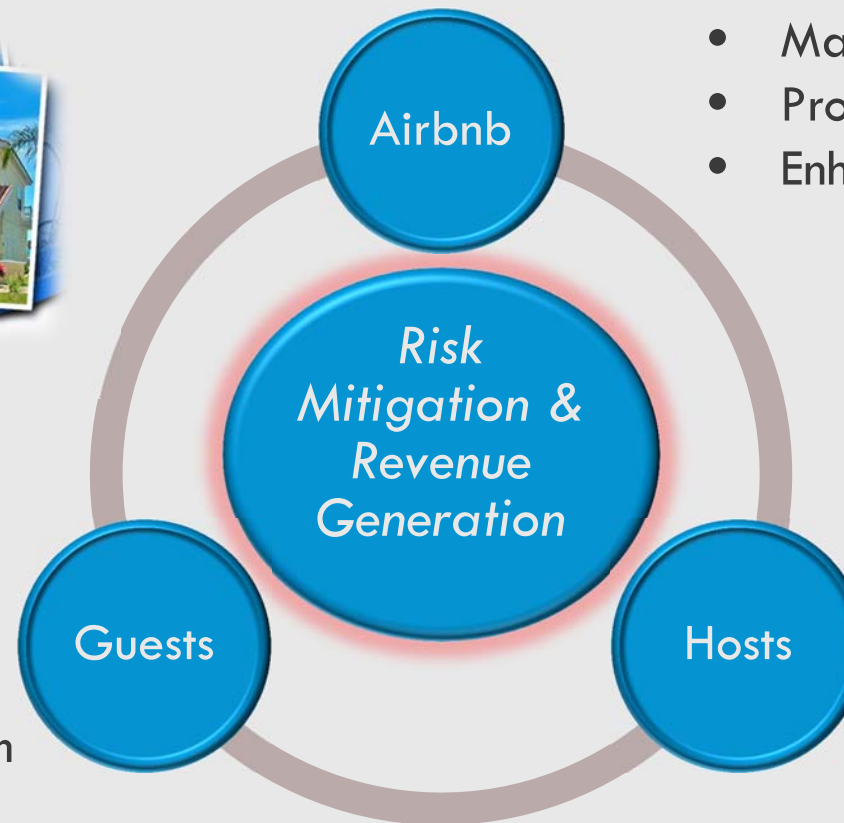
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Implementation

Q & A

Collaborative Approach

14



- Maximizing profitability
- Protecting our brand
- Enhance user experience

- Discounts
- Access to premium Properties

- Access to Information
- More transactions
- Competitive edge

KEY TAKEAWAY: Creation of collaborative platform benefits all members

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Recommendation

Analysis

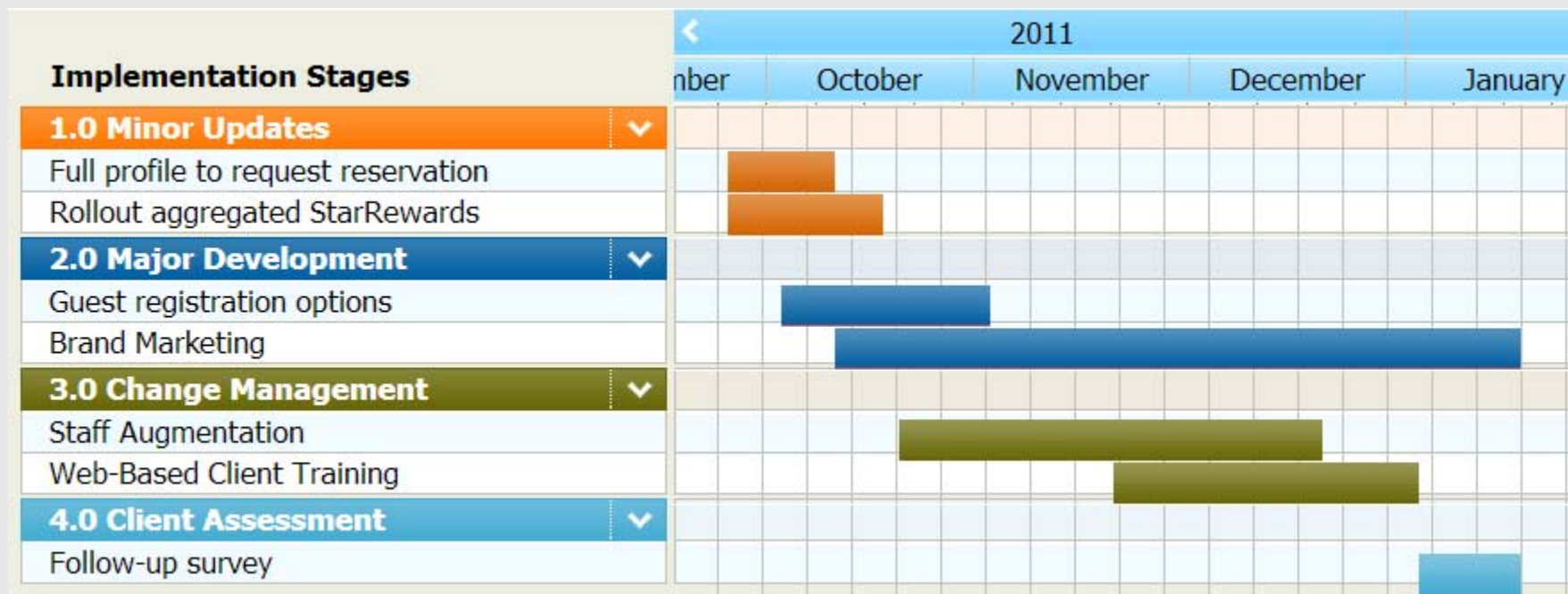
Risk Mitigation

Implementation

Q & A

Road to Success

15



Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

Your Thoughts?

16

Problem

Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

APPENDIX



Revenue Model: Airbnb

Recommended Revenue Generation Model

Proposed Revenue Model

Guest Rating	No. of Transactions	Rev from Guests	Rev from Hosts	Total Revenue	Guest Commission
1 Star	100	\$ 6.00	\$ 1.50	\$ 750.00	12%
2 Star	125	\$ 5.00	\$ 1.50	\$ 812.50	10%
3 Star	156	\$ 4.00	\$ 1.50	\$ 859.38	8%
4 Star	195	\$ 3.00	\$ 1.50	\$ 878.91	6%

per transaction

per transaction

Assuming Price per transaction (Average): \$50
This model shows per star level, the number of transaction increase.

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Recommendation

Analysis

Risk Mitigation

Implementation

Q & A



Projected Revenue Increase

Current State	
Valuation	\$1B
Growth Rate	3%
Discount Rate	10%
Cash Flow	\$68MM

Assumptions	
Average Transaction Price	\$50
Total Transactions	2,000,000,000
Years	4
Transactions/Year	500,000,000

Estimated New Transactions	Current Transactions	Projected Transactions	Projected Revenues	Current Revenues
1 Star Guests	200,000,000	200,000,000	\$ 1,500,000,000	\$ 1,300,000,000
2 Star Guests	150,000,000	187,500,000	\$ 1,218,750,000	\$ 975,000,000
3 Star Guests	80,000,000	100,000,000	\$ 550,000,000	\$ 520,000,000
4 Star Guests	70,000,000	87,500,000	\$ 393,750,000	\$ 455,000,000
Current Revenue	\$ 3,250,000,000	Projected Revenue	\$ 3,662,500,000	

- Revenue Increase Projected: 13%
- Transaction Volume Increase: 15%

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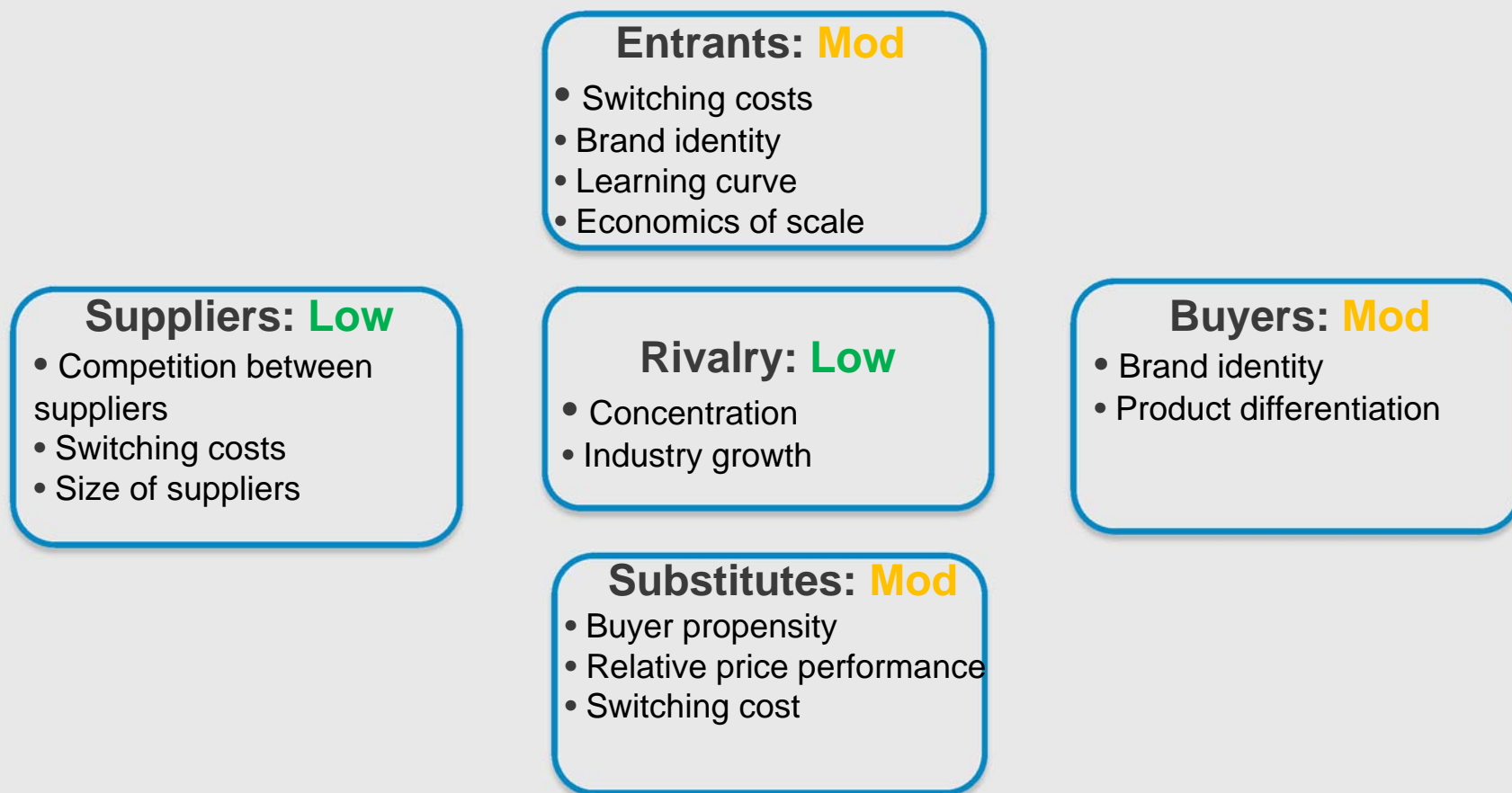
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Risk Mitigation

Implementation

Q & A

Industry Analysis



□ Source: "Airbub: From Y Combinator To \$112 M Funding In Three Years," July 25, 2011

Considering Geopolitics

Political	Raising questions from sales tax to unlicensed hotels
Economic	Compared to 2011, inflation rate dropped from 3.0% to 1.7% in the U.S.
Sociological	Preference regarding common features of customer differentiation
Technological	Application of customer rating system

□ Source:

1. Luis Cabral and Ali Hortacsu, "The Dynamics of Seller Reputation: Theory and Evidence from eBay," Journal of Industrial Economics 58 (2010): 54-78

2. <http://www.usinflationcalculator.com/inflation/current-inflation-rates/>



Where Airbnb Currently Stands

Strengths

- Large customer base
- Low-cost communication and matching system
- Name recognition
- Sufficient funding

Weaknesses

- Unreliable online transaction system
- No differentiation of customers
- Lack of rewarding system for royal customers

Opportunities

- Fast growing market
- Offer value-adding services

Threats

- Raising questions from sales tax to unlicensed hotels
- New entrants
- Losing trust of customers
- Public relation issue

- Source: "Airbus: From Y Combinator To \$112 M Funding In Three Years," July 25, 2011

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Recommendation

Analysis

Risk Mitigation

Implementation

Q & A

Value Chain Analysis

