Re-establishing Airbnb for Growth: Building a Better Brand

Andrew Tye
Debdeep Roy
Xiaosi Fu
Raghuram S Rao

DRAX Partners, L.L.C.

CBC Case Competition
Our Agenda for Today

1. Problem Statement
2. Recommendation
3. Analysis
4. Risk Mitigation
5. Implementation
6. Q & A
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

- Renovating the guest rating/incentive system
- Establishing a powerful media presence
- Creating a more robust revenue model
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
## How the Guest is Rated

### Credentials vs Points Gained

<table>
<thead>
<tr>
<th>Credentials</th>
<th>Points Gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upload 2nd government issued ID</td>
<td>30</td>
</tr>
<tr>
<td>Upload 1st government issued ID</td>
<td>20</td>
</tr>
<tr>
<td>Login with social network account</td>
<td>10</td>
</tr>
</tbody>
</table>

### Points, Level, and Commission Rate

<table>
<thead>
<tr>
<th>Points</th>
<th>Level</th>
<th>Commission Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 and above</td>
<td>★★★★★</td>
<td>6%</td>
</tr>
<tr>
<td>60 and above</td>
<td>★★★</td>
<td>8%</td>
</tr>
<tr>
<td>30 and above</td>
<td>★★</td>
<td>10%</td>
</tr>
<tr>
<td>10 and above</td>
<td>★</td>
<td>12%</td>
</tr>
<tr>
<td>0</td>
<td>-</td>
<td>14%</td>
</tr>
</tbody>
</table>

- 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
How the Host Benefits

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

**KEY TAKEAWAY:** Visibility provides competitive advantage
How Airbnb gains

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
Revenue Generation Model

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.
Investment Plan

Estimated Investments ($25MM)

- Portal Development: 40%
- Migration: 8%
- Marketing: 8%
- Staff Augmentation: 4%
- Lost Customers: 32%
- Host Insurance Plan: 4%
- Cyber Security: 4%
- Training: 1%

Problem | Recommendation | Analysis | Risk Mitigation | Implementation | Q & A
Brand Management

**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

<table>
<thead>
<tr>
<th>Problem</th>
<th>Recommendation</th>
<th>Analysis</th>
<th>Risk Mitigation</th>
<th>Implementation</th>
<th>Q &amp; A</th>
</tr>
</thead>
</table>

Alternatives

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

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

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

- Maximizing profitability
- Protecting our brand
- Enhance user experience

**Risk Mitigation & Revenue Generation**

- Discounts
- Access to premium Properties

- Access to Information
- More transactions
- Competitive edge

**KEY TAKEAWAY:** Creation of collaborative platform benefits all members
Road to Success

Implementation Stages

1.0 Minor Updates
- Full profile to request reservation
- Rollout aggregated StarRewards

2.0 Major Development
- Guest registration options
- Brand Marketing

3.0 Change Management
- Staff Augmentation
- Web-Based Client Training

4.0 Client Assessment
- Follow-up survey

2011

<table>
<thead>
<tr>
<th></th>
<th>November</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>January</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Your Thoughts?
## Recommended Revenue Generation Model

### Proposed Revenue Model

<table>
<thead>
<tr>
<th>Guest Rating</th>
<th>No. of Transactions</th>
<th>Rev from Guests</th>
<th>Rev from Hosts</th>
<th>Total Revenue</th>
<th>Guest Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Star</td>
<td>100</td>
<td>$</td>
<td>$</td>
<td>$ 750.00</td>
<td>12%</td>
</tr>
<tr>
<td>2 Star</td>
<td>125</td>
<td>$</td>
<td>$</td>
<td>$ 812.50</td>
<td>10%</td>
</tr>
<tr>
<td>3 Star</td>
<td>156</td>
<td>$</td>
<td>$</td>
<td>$ 859.38</td>
<td>8%</td>
</tr>
<tr>
<td>4 Star</td>
<td>195</td>
<td>$</td>
<td>$</td>
<td>$ 878.91</td>
<td>6%</td>
</tr>
</tbody>
</table>

Assuming Price per transaction (Average): $50

This model shows per star level, the number of transactions increase.
## Projected Revenue Increase

### Current State

<table>
<thead>
<tr>
<th>Current State</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation</td>
<td>$1B</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>3%</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>$68MM</td>
</tr>
</tbody>
</table>

### Assumptions

<table>
<thead>
<tr>
<th>Assumptions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Transaction Price</td>
<td>$50</td>
</tr>
<tr>
<td>Total Transactions</td>
<td>2,000,000,000</td>
</tr>
<tr>
<td>Years</td>
<td>4</td>
</tr>
<tr>
<td>Transactions/Year</td>
<td>500,000,000</td>
</tr>
</tbody>
</table>

### Estimated New Transactions

<table>
<thead>
<tr>
<th>Estimated New Transactions</th>
<th>Current Transactions</th>
<th>Projected Transactions</th>
<th>Projected Revenues</th>
<th>Current Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Star Guests</td>
<td>200,000,000</td>
<td>200,000,000</td>
<td>$1,500,000,000</td>
<td>$1,300,000,000</td>
</tr>
<tr>
<td>2 Star Guests</td>
<td>150,000,000</td>
<td>187,500,000</td>
<td>$1,218,750,000</td>
<td>$975,000,000</td>
</tr>
<tr>
<td>3 Star Guests</td>
<td>80,000,000</td>
<td>100,000,000</td>
<td>$550,000,000</td>
<td>$520,000,000</td>
</tr>
<tr>
<td>4 Star Guests</td>
<td>70,000,000</td>
<td>87,500,000</td>
<td>$393,750,000</td>
<td>$455,000,000</td>
</tr>
<tr>
<td><strong>Current Revenue</strong></td>
<td>$3,250,000,000</td>
<td><strong>Projected Revenue</strong></td>
<td>$3,662,500,000</td>
<td></td>
</tr>
</tbody>
</table>

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

- **Entrants:** Mod
  - Switching costs
  - Brand identity
  - Learning curve
  - Economics of scale

- **Suppliers:** Low
  - Competition between suppliers
  - Switching costs
  - Size of suppliers

- **Rivalry:** Low
  - Concentration
  - Industry growth

- **Buyers:** Mod
  - Brand identity
  - Product differentiation

- **Substitutes:** Mod
  - Buyer propensity
  - Relative price performance
  - Switching cost

Source: “Airbnb: 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:


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: “Airbnb: From Y Combinator To $112 M Funding In Three Years,” July 25, 2011*
Value Chain Analysis

Technological Development
- Enterprise IT
- Finance
- Human Resources
- Legal

Inbound Logistics  Operations  Outbound Logistics  Marketing and Sales  Service