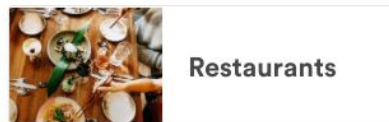
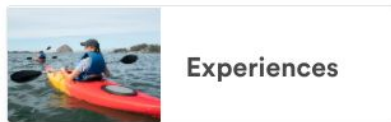
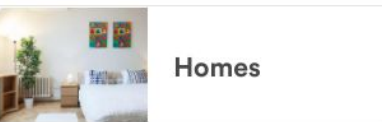


Airbnb Business Model Canvas

Explore Airbnb



Experiences



INTIMATE CONCERT · LOS ANGELES
Soul Music in a Speakeasy
\$14 AUD per person
★★★★★ 5



SURF LESSON · BALI
The Surf Champion
\$14 AUD per person
★★★★★ 47



HISTORY · PARIS
Paris' Best Kept Secrets Tour
\$79 AUD per person
★★★★★ 183



GUIDED HIKE · LOS ANGELES
Hollywood Sign Up Close & Personal
\$32 AUD per person

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Business Model Canvas Airbnb

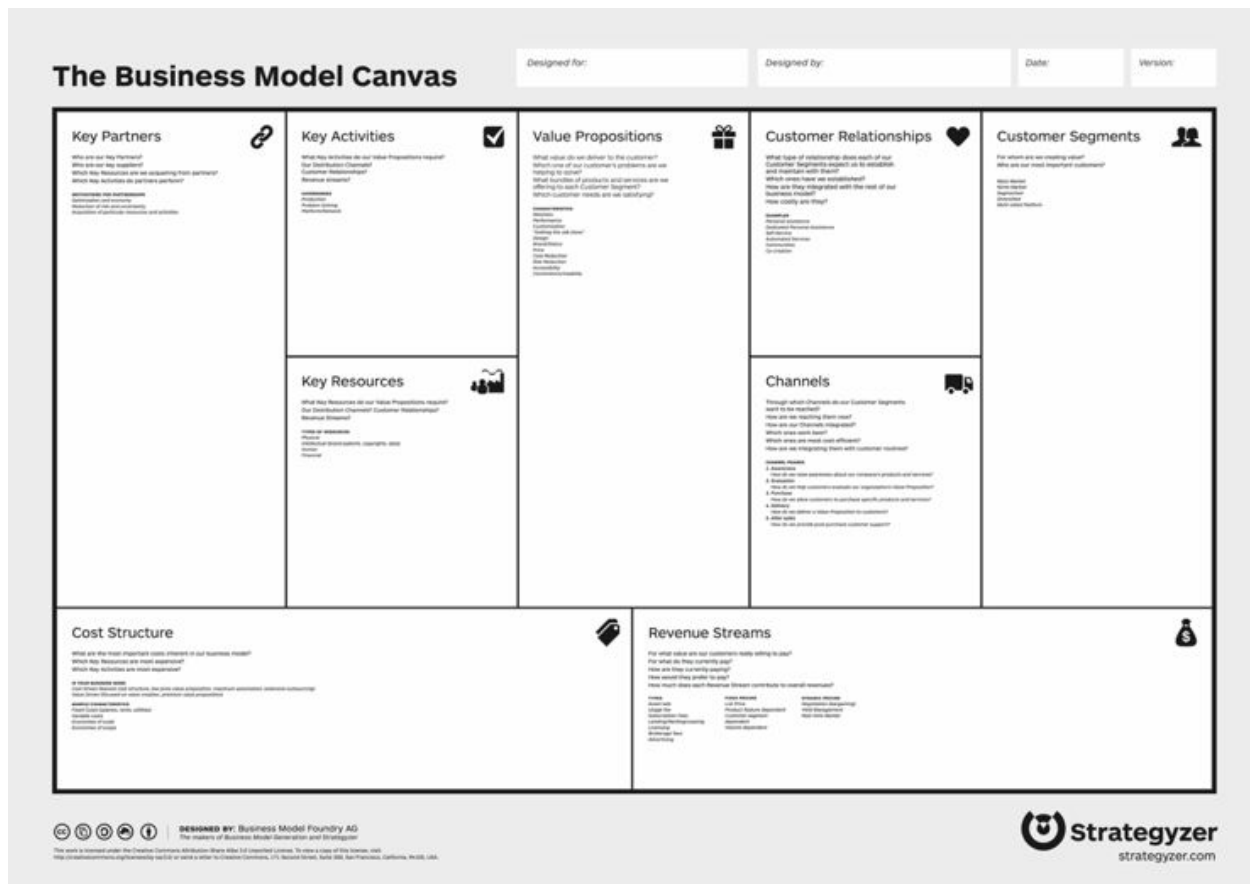
Airbnb is a fascinating company. It is valued at \$31b as of mid-2017 (pre-IPO). It has managed to exceed the market capitalisation of Hilton and Hyatt combined in less than 10 years since its start-up. They are serving over [3 million listings](#) in more than 65,000 cities in over 190 countries and 200,000,000 guests to date.

Today, we are going to have an in-depth look at Airbnb's business model. A great tool to have a holistic view of their business model is the [Business Model Canvas](#), a very popular tool invented by Alexander Osterwalder. It can help you scetch-up, discuss and develop your innovation ideas in teams and by yourself.

Airbnb's mission: "Airbnb connects travelers seeking authentic experiences with hosts offering unique, inspiring spaces around the world."

The Platform Business Model Canvas

The Business Model Canvas consists of the 9 categories you see below to describe a company. Broadly speaking the left-hand side is the supply side from the business' perspective and the right-hand side is the customer side.



This is the [Business Model Canvas](#) as devised by Alex Osterwalder.

Download the business model canvas as excel file: [Business-model-canvas \[xlsx\]](#)

Let's go through the canvas from left to right.

Key partners

Key partners are not easily replaceable. They contribute significantly to the success of the company and influence its future trajectory.

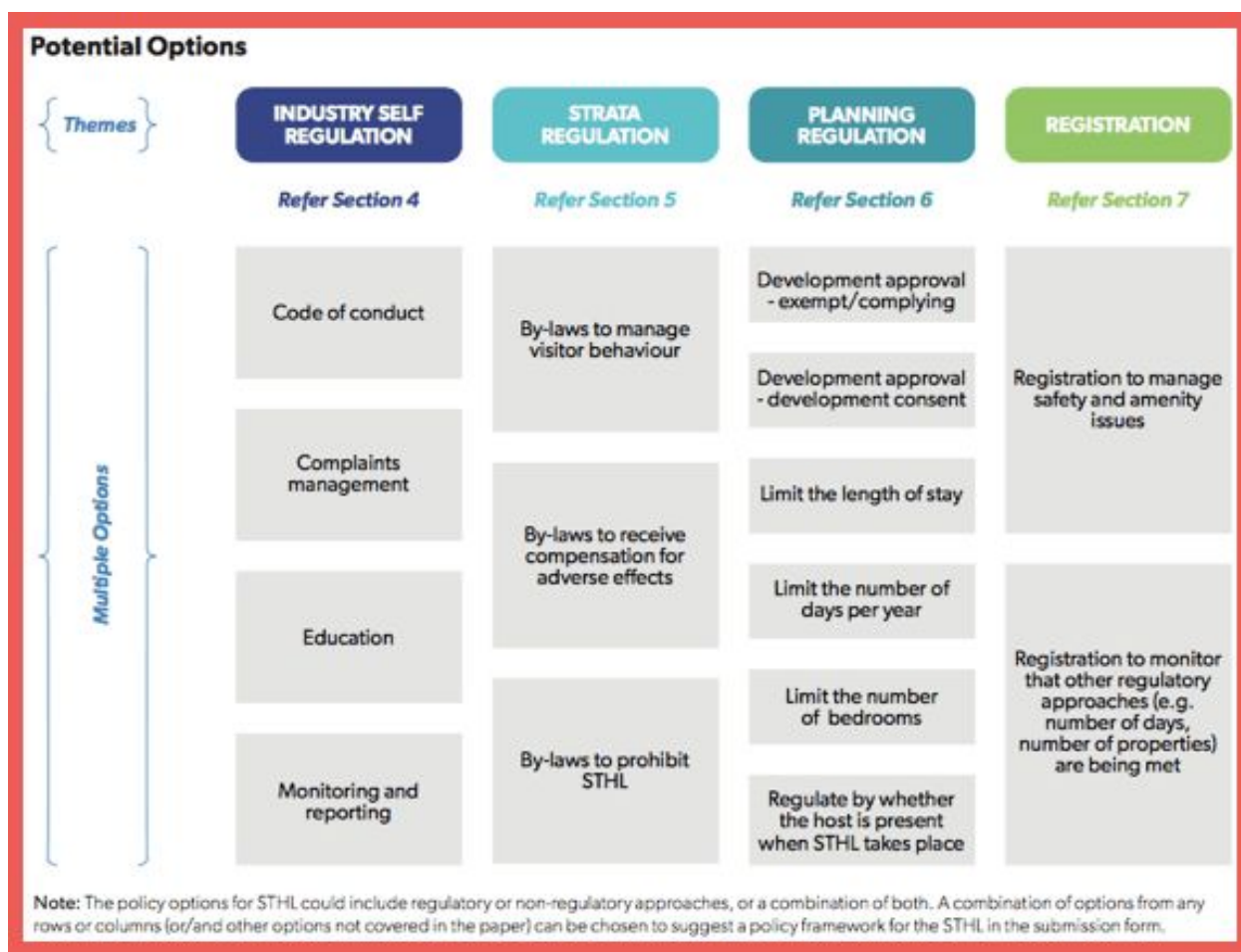
1. **Hosts** are the supply side of the Airbnb platform. They bring their homes/units to the table. Achieving a critical mass of supply and variety of choice is important for the customer value proposition. Airbnb has two types of hosts:
 - **Rental hosts** offer houses, units/condos, rooms, and more exotic stays, such as castles, igloos and more.
 - **Event hosts** offer to guide through local experiences, food, art, fashion, nightlife, etc.
2. **Investors/venture capitalists** bring the initial rounds of funding to the table. The funding helps with developing the functionality, apps, algorithms, but also for acquiring customers. Investors bring down the (weighted) cost of capital (WACC).

Funding Rounds (11)				UPDATE
Date	Amount / Round	Valuation	Lead Investor	Investors
Mar, 2017	\$447.8M / Series F	—	CapitalG TCV	4
Sep, 2016	\$555.46M / Series F	—	CapitalG TCV	5
Jun, 2016	\$1B / Debt Financing	—	JP Morgan Chase & Co.	4
Nov, 2015	\$100M / Private Equity	—	FirstMark	1
Jun, 2015	\$1.5B / Series E	—	General Atlantic Hillhouse Capital Group Tiger Global Management	14
Apr, 2014	\$475M / Series D	\$10B	—	6
Oct, 2013	\$200M / Series C	—	Founders Fund	5
Jul, 2011	\$112M / Series B	—	Andreessen Horowitz	8
Nov, 2010	\$7.2M / Series A	—	Greylock Partners	8
Apr, 2009	\$600k / Seed	—	Sequoia Capital	2
Jan, 2009	\$20k / Seed	—	Y Combinator	1

Funding rounds for Airbnb are crucial to keep costs of capital low, to expand and run operations until the platform becomes profitable [source: [crunchbase](#)]

3. **Lobbyists** are crucial for Airbnb at all levels of government. New York City has made it [illegal to advertise homes for stays of less than 30 days](#). The exception is to share rooms where the landlord stays in the same apartment. [Legal analysts point out](#) that this is building on regulations that were in existence since the early 2000s to clampdown on illegal hotels at the time. Airbnb called it lobby-supported “[back-room dealing](#)“. On the federal level, the

well-known Senator Elizabeth Warren [requested the Fair Trade Commission](#) to investigate allegations against Airbnb (and peers). It turned out that both events were part of a [secret plan of a hotel lobby group](#). As a consequence, Airbnb has ramped up their [lobbying efforts further](#) (on the federal level through Clinton-close Podesta lobbyists) and [through a PAC on NY City level](#). The aggregate success (or failure) of their lobbyists can make a considerable difference to Airbnb's trajectory. Fortunately, here in Australia, things are a bit more transparent.



While it seems a bit over-governed to have 6 different state legislations for 25m people (or one legislation per 4m people),

at least there is a transparent discussion here in Australia. The state of New South Wales (where Sydney is located) has issued an [options paper for short-term holiday letting \[pdf\]](#) that shows the themes of regulatory interest.

4. **Corporate travel partners:** Airbnb has opened a large source of new guests by expanding into the business travel world. Through their alliances with [platforms like Concur](#) and [Flight Centre](#), Airbnb inventory becomes available to corporate travel managers.
5. **Corporate travel managers** have some discretion as to which suppliers, including lodging providers, they enlist within their corporate travel policies. These corporate travel managers have the discretion to add thousands of potential guests. Early adopters are particularly valuable as they can set a precedence for peers to follow.

Non-key partners are those where Airbnb have several options with comparable offerings to choose from. This doesn't mean the service non-key partners are providing is unimportant:

- Airbnb hires freelancing professional streets/events/property photographers in some cities. The photos are very important. But there is sufficient supply of photographers. Even if all current photographers decided to jump ship, it would not affect Airbnb's revenues and within a few weeks, they would fill the ranks back up.
- Maps, payment platforms, cloud storage, identification platforms are important but they are not proprietary any longer.

-
- Insurance companies, while very important and initially challenging to make a deal with, by now are not a big challenge any longer.

Cloud providers (and many other tech API providers) are not key partners if they provide easy-to-replace commodities (unlike a few years ago). Airbnb has acquired a number of small tech companies that may end up becoming key resources if they contribute significantly to Airbnb's growth.

We are not just glossing over. Learn from the most innovative companies, like Airbnb, in-depth. Receive articles like this one in future by opting-in at the end of this article.

Key activities

The network effects are the moat (i.e. competitive advantage) of platform businesses. The key activities should revolve around improving positive network effects and reducing negative ones.

1. Enhance positive network effects between the participants (hosts and guests), by enticing more users to join and participate
2. Reduce negative network effects, by making the individual host-guest transactions easier and managing complaints swiftly and learning from them
3. Grow the platform by:
 - getting more participants to join,
 - entering new cities,
 - complementary offering that increases stickiness, such as events.
4. Keep participants engaged, e.g. high utilisation of homes
5. Keep guests returning by providing great travel experiences in accommodation and events/experiences
6. Add new customer value propositions, e.g. event hosting:
 - creates complementary offerings to lodging,
 - adds new hosts and offers income opportunities,
 - increases host and guest engagement
7. Deliver on the customer proposition
8. Analyse the data to fine-tune everything, example on [improving the check-in process](#)

Key resources

The key resources of a platform business are the network effects. In this case, those between hosts and guests. Airbnb is a great example for this. Airbnb hosts are providing places to stay, events, recommendations what to do at the locations. Not every host does all and that is not required. On aggregate, the hosts make their destinations (and thus travelling as such) more attractive by indirectly collaborating. This is a great example that the total is larger than the sum of the individual parts.

The value propositions listed in the next section unfold their strength with the networks effects.

With this said, the key resources are:

1. The network effects
2. The homes listed & requested
3. The events listed & requested
4. User generated content on the webpages
5. Captured data
6. The algorithms
7. Development, analytic capabilities and [engineers, data scientists](#)
8. The brand
9. Access to venture capital to keep the business growing
10. Skilled employees
11. The app & webpages

Value proposition

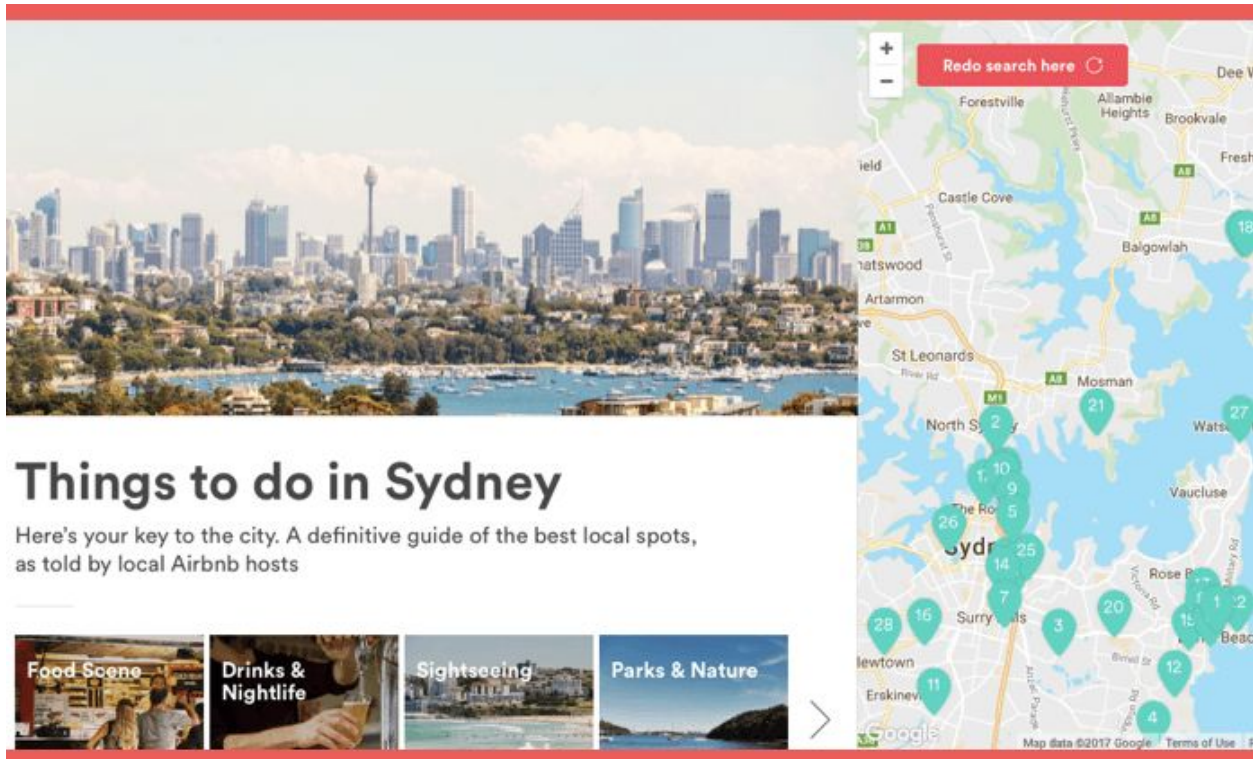
Your platform needs to create value for the supply (=hosts) and demand (=guests) side of your platform.

Airbnb creates value propositions on (at least) three levels (apart from the financial value):

- **Individual connections:** Airbnb helps to start the every guest-host connection on the right foot. In comparison, hotels try to provide the same looks&feel everywhere in the world. Individuality gets lost. The people providing the service have to be adjusted to the service delivery standards, etc.
- **Community:** connections between the users as a whole enabled by the vast amounts of user generated content on the destination locations as well as the respective home/unit/room.
- **Localisation:** by adding an increasing amount of information/recommendations on the location and adding events provided by event hosts.



Airbnb has a growing [list of guidebooks for the major destinations](#) similar to traditional travel guides but with the content created by the local hosts. This can entice guests for one or the other destination. A typical case of positive cross-side network effects.



[Things to do in Sydney](#) is a long list of recommendations created by hosts in that city, categorised and with professional photos (taken by Airbnb-contracted photographers). The description is host-generated, thus authentic and low in creation costs. Any local Airbnb host can write their recommendation to any of the places creating great value for guests and others can like it. Further to this, Airbnb features [some cities and their neighbourhoods](#) with lots of authentic street photos.

This is how the **value propositions for the hosts** looks in more detail:

1. [Income generation](#) (“From saving for home repairs to taking a dream trip, hosts use extra income to fund their passions.”)
2. Ease of transactions:
 - joining the platform

-
- getting guests
 - payments, etc
3. Experience of meeting new people (if desired)
 4. Guests are already ID checked, plus ability to review guests ratings
 5. Calendar, booking management through Airbnb
 6. [Insurance](#) coverage through Airbnb (hosts still needs an insurance for certain items)
 7. Other host service providers (non-affiliated 3rd parties) from cleaning only to full management

Relevant for both sides:

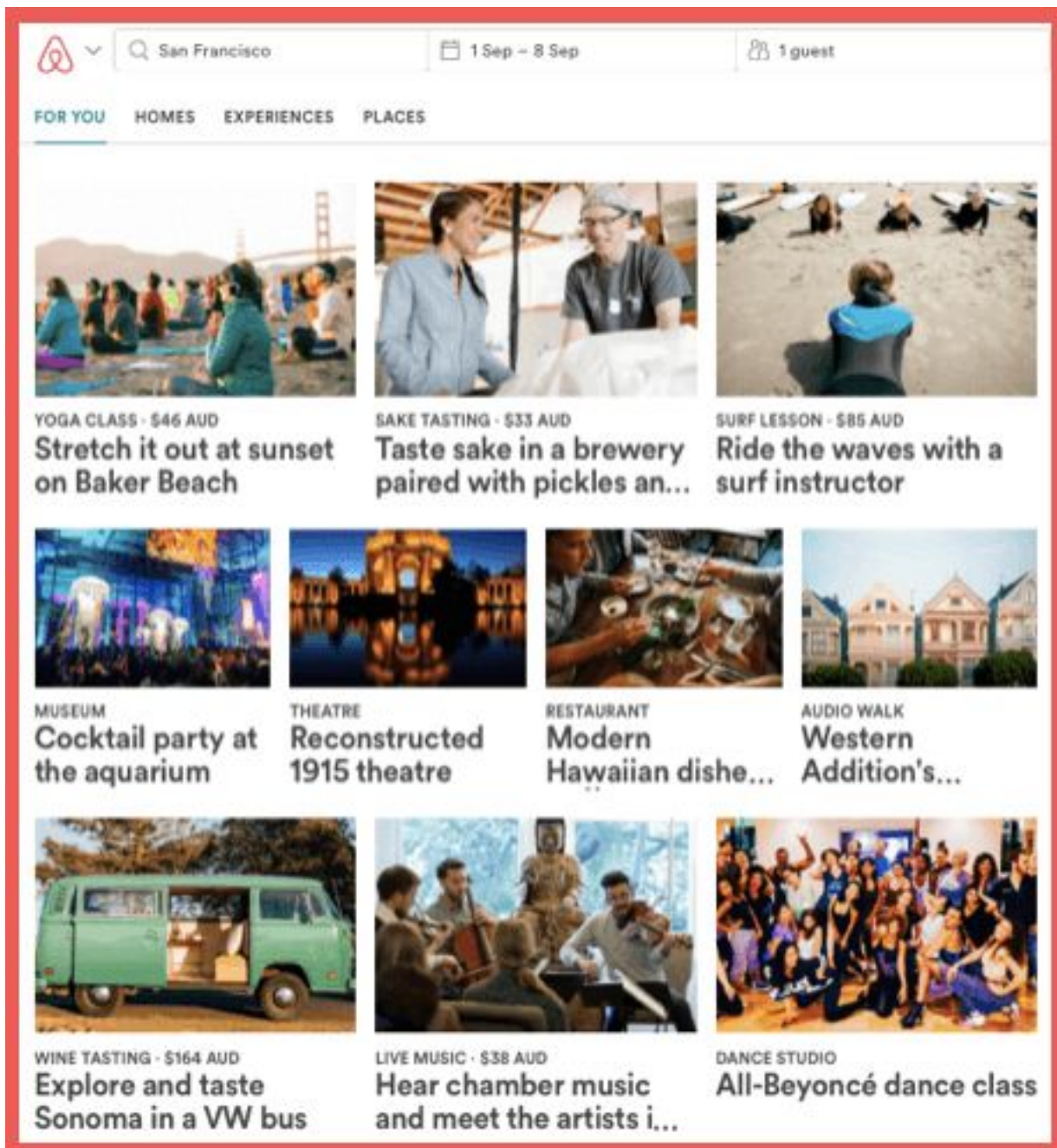
1. Airbnb recommended [hospitality standards](#)
2. [Responsible hosting guidelines](#) with all tips on safety, hazards, neighbours, etc
3. Dispute resolution process through Airbnb
4. Taking [safety and trust](#) seriously

Some of the **value propositions for the guests** (demand side) are:

1. Convenience of booking
2. The amount of choice and variety of types of homes
3. The proposition to experience the destination more authentically
4. Tons of authentic information about the destination city (selected large cities)
5. Often cheaper than comparable sized hotel rooms
6. Units and especially houses with several bedrooms
7. Cashless transaction

8. Rating system that allows for feedback

Airbnb is adding value propositions to both sides that hotels will struggle to compete with. Compare Airbnb events to the old-fashioned flyers you find in some corner in hotel foyer.



Events hosting and [experiences](#) in the destination are great complementary value propositions for hosts and guests. One that hotels barely compete with as they only offer on-resort or pre-selected offerings. This is another great source of nurturing innovation.

Customer segments

I recommend you see both the supply as well as the demand side as a customer even though on some platforms only one side pays. On Airbnb this is clearer as both sides pay (see below in “Revenues” section).

You can segment customers always in different ways depending on the question you are trying to answer. Let’s look at some ways of segmenting Airbnb’s customers.

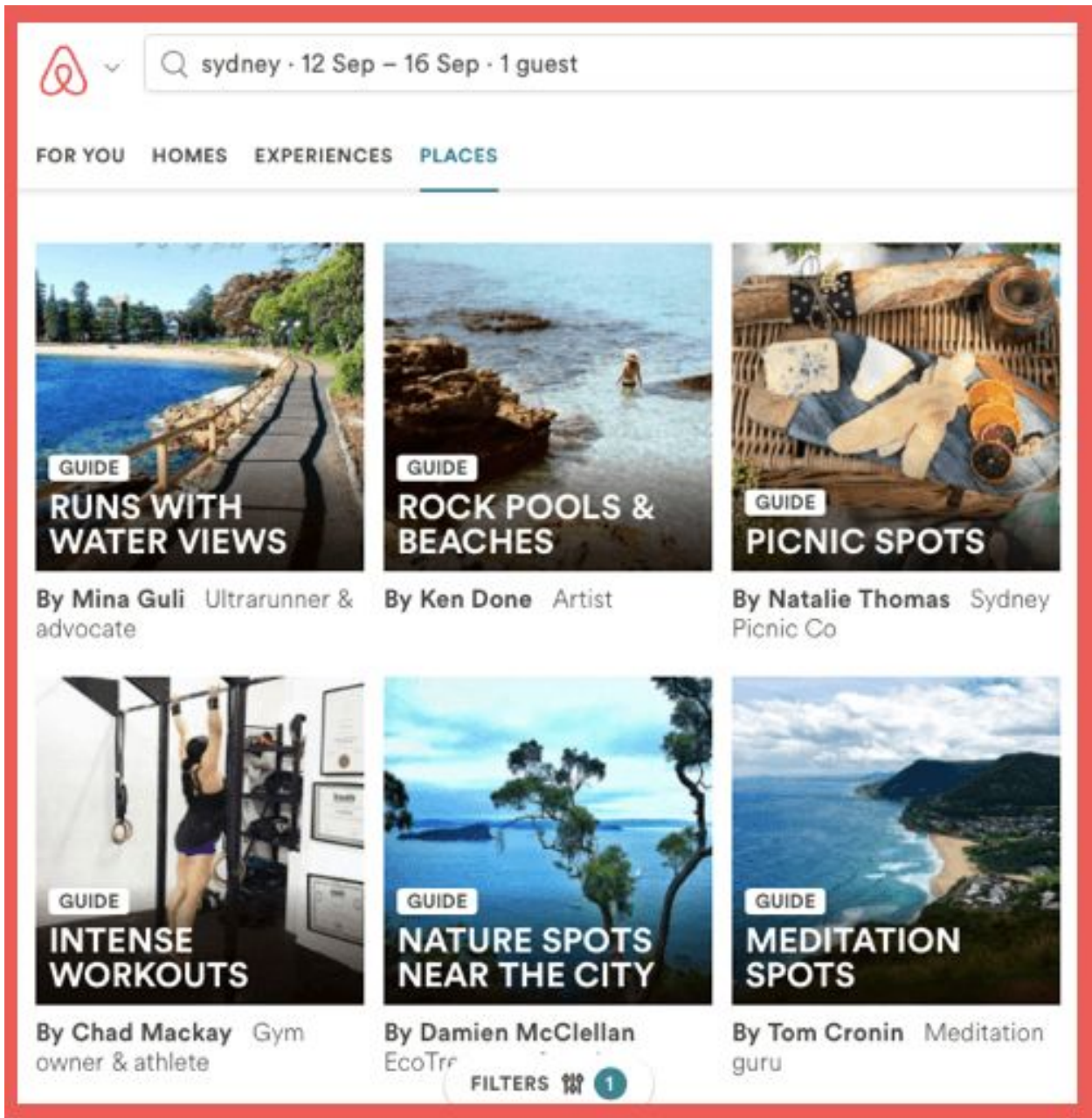
- Guests:
 - by travel type
 - business travel guests; leisure travel
 - tour of multiple destinations; single destination stay
 - by demographic
 - single; couple; family with children
 - age brackets
 - pre or post retirement
 - by income bracket
 - by interest*
- Hosts:
 - by type of accommodation provided
 - Room; unit/condo; house
 - by home/location
 - country; city
 - by location type
 - countryside; suburb; metropolitan

-
- On macro level, you can segment
 - rental hosts/guests only
 - event hosts/guests only
 - and on this, how to make both offerings more complementary (e.g. bundling, discounts, promotions)

* Airbnb and anyone else will be able to target you very well if you log in there with your Facebook account.

These are still very macro segments. All data-driven companies, like Airbnb, create much more micro-segmentation that should be much more valuable than the above traditional segments.

These macro segments can be targetted in various ways: here's an article [targeting families with kids](#) and one targeting the [post-retirement extensive traveller segment](#). The articles directly target the respective segments and have links embedded to destination guidebooks and even to listings.



One way to segment is according to interest. Here are guidebook when I filter for nature & outdoor in Sydney,

Customer relationships

The most important consideration on this dimension is to firmly own the customer relationship and to keep it within your platform. Airbnb has poached many customers from Craigslist in their early days. The business travel platforms (Concur, Flight Center, see above) and Airbnb will have careful provisions in their contracts and the customer data that they share to avoid “leakages”. You might say they are very different platforms but what about losing customers to hotels via the travel platforms or to other short-term rental platforms that may collaborate the travel platform in future?

Relevant for both sides

1. Deal with customer issues in appropriate manner and timeliness (see “Channels” for more)
2. Manage bad behaviours and risks (the “harassing host” and the “house trashing guest”) and improve rules continuously
3. Transparency around privacy, personal data, etc
4. Portray the desired company image through social and other media

Especially for the hosts

Customer relationships to the supply side (the hosts) will be mainly defined by what the platform does for them in terms of income while protecting their property from bad guests.

-
1. The platform's ability to generate income (short gaps between guests, listing up the top, etc)
 2. Provide good guests (weed out the bad apples)
 3. Manage issues (accidents, damages, complaints) swiftly
 4. Support in the on-boarding process
 5. Help hosts to succeed in general and
 6. Help super hosts to stand out and be rewarded

Beyond the customer

There is no field for key stakeholders in the business model canvas. This category is very important for platforms. They are an emerging phenomenon. As such, the public opinion has not yet fully formed and it will significantly influence your customer's view of your platform.

I have already covered lobbyists and influencers as key partners. But here we need to talk about the public as such.

1. Manage the social, communal, economic footprint/impacts of the platform
2. Liaise with cities, communities, regulators and other groups as required (and proactively where beneficial)
3. Manage the platform's image across the media and other relevant channels
4. Manage serious incidents quickly to avoid negative viral spread (want to be on an overbooked United Airlines flight?)

Airbnb manages a number of channels through which they publish public opinion influencing articles. They have the [Airbnb newsroom](#), [Airbnb Citizen](#) and their [Facebook pages](#). E.g. in August 2017 there are articles on topics as [sustainable travel](#), [refugee/evacuee support](#), [social impact](#), [disaster response support](#), and [local updates](#).

Channels

Channels for the initial awareness and customer acquisition are:

1. [Digital ad campaigns](#) via AFAR, YouTube, Dwell, Lonely Planet, BuzzFeed, the BBC, Facebook and Twitter
2. [Content marketing](#): via their newsroom and guidebooks (see above)
3. Word of mouth:
 - via social media and messaging apps
 - user stories: “our users tell the stories better than we do”
 - referral programs rewarding referrer and referral taker with credits
 - digital influencers
4. Free media coverage based on the novelty factor
5. App stores (iOS, Android): through high ratings, ads and being featured

Channels for daily transactions:

1. Most transactions are fully automated through the app and web pages
2. Signing up through the web pages or the app
3. Airbnb uses emails & notifications to engage, stimulate participation, referrals, reinvigorate/recover customers (through special offers, reminders, etc)

-
4. Keeping users engaged and drawing in new users is essential for all platforms. [Airbnb's Facebook](#) pages are a great example for this.
 5. Tiered customer support channels
 - Automated customer support for high-volume, low severity issues (e.g. forgotten items) to be rapid
 - Multi-tiered customer support (ability to contact a human) for more severe issues
 6. Many communication channels, e.g.
 - [Airbnbmag](#),
 - [Airbnb newsroom](#),
 - [Airbnb Citizen](#) and their
 - [Facebook pages](#)

Cost structure

Airbnb's most important cost elements are:

1. Cost of customer acquisition, CAC: referral credits, digital advertising, paid search (see comments above), etc
2. Weighted average cost of capital, WACC (can be ~25% for start-ups, for Airbnb this should be far less)
3. Development of new features, ongoing fine-tuning of algorithms, etc
4. Expansion to new cities and new niches
5. Payroll for permanent employees and freelancers (e.g. photographers)
6. Costs of payment processing
7. Lobbying, regulatory compliance
8. Legal cases and settlement costs
9. Infrastructure costs, computing power, bandwidth
10. Customer support
11. Insurance, legal costs

I have not distinguished between capex and opex but you can see there are a lot of growth-related costs. The capex components will taper down as the company matures barring, of course, new growth endeavours.

Airbnb passes some of their costs on to guests/hosts. More on that in a second when we talk about their revenues.

Revenues

On the surface, Airbnb makes their revenues by charging hosts and guest a [service fee per transaction](#):

- Rental guests pay 5-15%
- Rental hosts pay 3-5%
- Event hosts pay 20%
- Event guests pay 0%

Other short-term rental platforms (e.g. VRBO, HomeAway) charge a listing fee rather than per transaction fee. This is a different pricing model.

Here are some **interesting observations on Airbnb's pricing model**:

1. Guests pay a 2-3 times higher fee per transaction than hosts. This has to do with supply and demand of hosts and guests and with incentives. Hosts are harder to get as there are fewer people who have a spare room/unit/house and are willing to rent it out (repetitively) to (potentially untrustworthy) strangers. Guests, by comparison, save money (=incentive) compared to hotels.
2. Hosts pay 3% transaction fees if they select a flexible [cancellation policy](#), 4% for a moderate and 5% for a strict cancellation policy. Basically, they pay more for certainty (though they may miss out on bookings from people who prefer flexibility). If you are offering a home that is vastly popular, you can more likely afford a strict policy and even pass the additional costs onto the guests by charging a higher price. Airbnb incentivises hosts to opt for a more

flexible policy as this is the most desirable option from a guest perspective and should lead to more aggregate bookings.

3. Guest service fees are at the lower end of the 5%-15% range, the higher the overall transaction value. The transaction value is obviously a function of the per night price of the accommodations the duration of the stay. Given guests are already incentivised by low costs, Airbnb figures they can charge more on the service fee. Another reason, of course, is that fixed costs are roughly the same independent of the accommodation per night price.
4. Event fees are very different. There is no service fee for the guest and a 20% service fee for event hosts. Event hosts are easy to get. Many of them have a small local business or a hobby they are good at and use Airbnb as an additional advertising platform for their offering. No doubt, these people will be quite willing to pay 20% as any booking from Airbnb is an incremental booking to their other sales channels.

Cost recoveries

Airbnb passes some of their costs directly onto their customers (beyond operational costs plus margin).

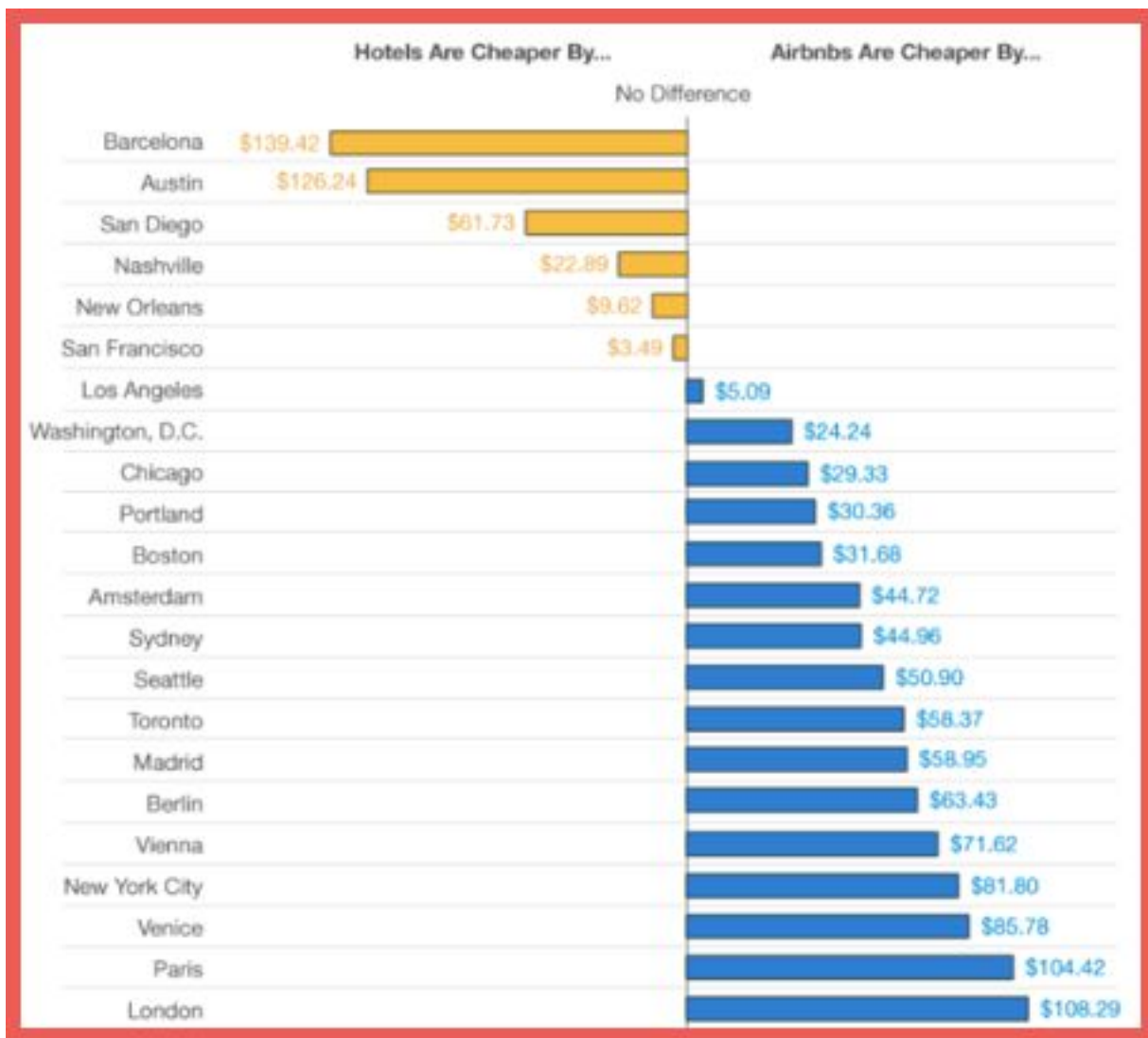
- Airbnb passes [Google paid search costs onto the hosts](#) whose space is being booked through ads. Host are opted in by default but can opt out but wont be listed when the potential guests gets onto the Airbnb pages through a paid ad.
- Airbnb offers [professional photography](#) of rental homes in selected cities for a fee.

-
- There are cleaning (and hosting) service providers for Airbnb listed properties. These are not affiliated with Airbnb but promise to comply with the Airbnb service standards.

Cost comparison hotels vs Airbnb (cost incentives for guests)

We found a lot of interesting financial observations below the surface [when we looked at Uber](#), Airbnb is more complex. Uber's value proposition is very similar to that of their main competitors, traditional taxis. Airbnb's value proposition is more differentiated to traditional hotels. Also, the cost elements and incentives for the participants are different.

One often cited comparison by Busbud.com concludes that price differences vary a lot by city but that Airbnb is cheaper in a majority of cities. The study is based on 220,000 Airbnb listing. But they don't shed any further light on their methodology. E.g., have they compared for comparable accommodations or have they just compared the entire inventory across all classes for a given date range? With this caveat, here is the comparison which I decided to take at face value (run a few – very inspiring – searches yourself as I have).



A comprehensive comparison by [Busbud.com](https://www.busbud.com) shows that Airbnb is cheaper in a majority of the analysed cities (note, that Busbud have not disclosed their methodology, but that they have analysed 220,000 Airbnb listings worldwide)

Cost base for the hosts

Any revenue consideration needs to take into account that the offered accommodation on Airbnb plus all Airbnb fees needs to be lower (or at least

comparable) to a similar hotel offering. When we compare Uber to taxis, we have seen a number cost advantages of Uber drivers to taxis (and the “saving” on the cost of capital was only one). A similar comparison for Airbnb is much more difficult. Let’s still have a brief look.

It makes more sense to look at the different cases of host accommodations:

1. **Room:** In this case, the hosts rents out one room only. The amenities (kitchen, bathroom, etc) are shared. The marginal cost for the host is directly correlated to direct costs by the guest, incremental heating, electricity, internet usage, etc.. There are two typical cases:
 - The host never had the intention to rent this room out in the classical rental model. In this case, any net income (minus tax) is additional income. And the host does not even need to worry how often the room is occupied and can take it how they feel. This is a common case.
 - If the host has rented the room out on a permanent basis before and is keen to obtain a higher income through the Airbnb model, then the utilisation and transaction cost differences play a role. The host will surely be able to get a higher per night rate through Airbnb. But they will need to do at least a minimum level of servicing of the room themselves after each guest. And they will also have more gaps say over a monthly basis. However, on an annual average basis, things may be different assuming that getting a long-term rental may cause larger gaps in-between tenants. Cost

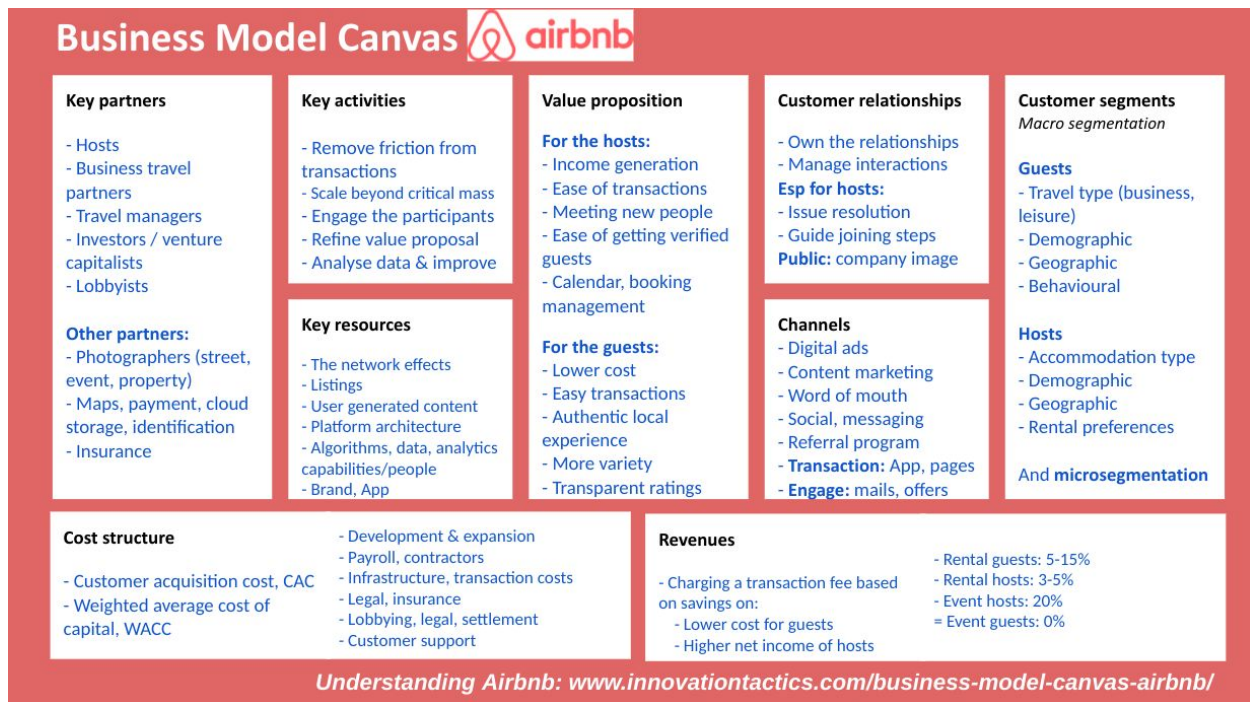
of capital (i.e. pro-rated mortgage interest) needs to be factored in.

- You can compare across various cost categories that I have listed for our Uber vs taxi comparison:
 - Capital costs and cost of capital
 - Furniture
 - Permits, taxation or other fees
 - Payroll and employee entitlements
 - Operational costs (utilities, consumables, soft products, etc)
 - Maintenance costs
 - Transaction costs, etc
2. **Apartment, house:** Using the above-mentioned lines of thinking, compare for yourself the case of renting out an entire apartment or house via Airbnb to renting it out long-term in the classic rental model. There are many considerations and cases. E.g. some people rent out their home while they are on leave themselves (and Airbnb prompts those who book accommodation through them, to rent out their own space while they are away). Other home owners rent out individual rooms to different Airbnb hosts at the same time and so on.

As you can see it is very complex. But Airbnb needs to understand the above and what motivates hosts to offer their spaces on Airbnb. It is not all pure financial considerations. And all that I have listed above plays a role in motivating hosts.

The question will always be if a platform can create enough cumulative value for its participants so that it can extract sufficient value for itself. The cost base *for the participants (hosts & guests)* is at the heart of the revenue question for the platform.

Airbnb Business Model Canvas



The Airbnb business model canvas (click image for high resolution)

Download the [Airbnb Business Model Canvas \[pdf\]](#) and/or as Powerpoint file [Airbnb Business Model Canvas \[pptx\]](#).

Valuable links

I have more in-depth articles in this series of travel platform businesses:

1. [Business models compared: Booking.com, Expedia, TripAdvisor](#)
2. [Customer journey comparison: TripAdvisor, Booking.com, Expedia, Google](#)
3. [Micro moments: how Booking.com, Expedia, Airbnb, TripAdvisor, Google guide the customer journey](#)
4. [Business model canvas Booking.com](#)
5. [Business model canvas Expedia](#)
6. [Business model canvas TripAdvisor](#)

What does this mean for you?

It was not anyone from the travel industry who came up with the idea of TripAdvisor, Expedia, Airbnb or Booking.com. It was passionate innovators and entrepreneurs. But it could have also come out from a bunch of engaged intrapreneurs from within the industry. This only means anyone from within or outside of an industry can come up with great ideas.

You can either use some of the ideas in this article as individual innovation tactics or even a platform business model. The knowledge you have gained in this article gives you the opportunity to develop innovation ideas that you can be proud of!

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Author: Dr Murat Uenlue, PgMP, PMP; Managing projects >\$1b