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## Airbnb Strategic Audit Overview

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# **Airbnb Strategic Audit Overview**

**An Undergraduate Honors Thesis Submitted in Partial  
fulfillment of University Honors Program Requirements  
University of Nebraska-Lincoln**

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## **Abstract**

This study provides an overview of Airbnb, an online marketplace for short-term rentals and experiences. It highlights the company's history, business strategies, value chain, acquisitions, code of ethical conduct, and organizational structure. With a Blue Ocean strategy combining differentiation and cost leadership, Airbnb has achieved remarkable success, boasting a valuation of over \$67B and generating annual revenue exceeding \$1.5B. The company's unique business model involves participating in all parts of the value chain, and it has expanded geographically through acquisitions and product market expansion. Airbnb's code of ethics reflects its core values, and its organizational structure fosters flexibility and remote work options. Overall, the company incentivizes performance through cash bonuses and equity-based compensation plans.

Key Words: Airbnb Inc., Global Hotels and Tourism Industry, Bedshare, Strategic Management, Strategic Audit, Case Study

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# Executive Summary

Founded in August 2008, in San Francisco, Airbnb operates an online marketplace that focuses on short term rentals and experiences. Essentially, the firm is a broker for rental homes and charges a commission for each transaction it helps facilitate. The company's founders are Brian Chesky, Nathan Blecharczyk, and Joe Gebbia. The firm went public on December 10th, 2020, and today, Airbnb is a massive company worth over \$67B and generates annual revenue of >\$5M.

Airbnb's principal business model is to collect fees from brokering connections between hosts and guests, usually taking an 8-18% fee for its services. Airbnb has built trust with its customer base by creating a secure platform that allows for stress-free payments and the ability to leave reviews. Airbnb's mission is "To live in a world where one day you can feel like you're home anywhere and not in a home, but truly home where you belong."

Airbnb's management team includes numerous brilliant individuals, with two of the three founders still active with the firm. Brian Chesky serves as CEO of Airbnb and has developed a deep management team. A few key members of Airbnb's management team are listed below.

- Richard Baer - Chief Legal Officer
- Air Balogh - Chief Technology Officer
- Dave Stephenson - Chief Financial Officer
- Catherine Powell - Head of Airbnb Experiences

Externally, Airbnb is facing numerous influential forces. Some of the significant external shifts Airbnb must adapt to include an increased awareness around climate stewardship, increased focus on experiences and traveling, and evolving global legal regulations. A few key threats the firm faces are rising interest rates and an economy facing tough times. Also, Airbnb operates in a competitive industry, with hotels making a comeback and VRBO becoming a household name. On the brighter side, there are opportunities for Airbnb to capitalize on, including society working from home and technology giving Airbnb an easy medium to reach its customers.

Internally, Airbnb has heavily invested in its core resources with an excellent app/computer software, a vast host network to drive revenue and a decade+ of customer data to draw on to improve rental connections. In addition to these resources, Airbnb focuses on intensive marketing, after-sales service, website management, and product development to support and grow its operations.

Although there are numerous changes Airbnb must adapt to, Airbnb should be able to keep its competitive advantage due to its unique positioning. No firm is as flexible for travelers and meets as many customer needs as Airbnb. In addition, the firm has created a diversified revenue stream that should give it ample time to keep innovating and staying ahead of the competition.

From our research, it appears Airbnb primarily runs a Blue Ocean business strategy that combines its differentiation strategy along with a cost leadership strategy. Due to the firm's operating leverage and consistent value innovation, Airbnb is able to balance these two strategies and excel at both. From a market perspective, Airbnb is going after the broader rental and travel market. This is seen through the

firm's acquisitions of smaller travel firms and its rapid geographic expansion. Overall, this business strategy allows Airbnb to be extremely flexible and nimble in how it approaches the market.

Airbnb participates in all parts of its value chain, which is different from most businesses due to its unique business model. The key parts of Airbnb's value chain include contracting hosts and developing listings, website creation and maintenance, marketing & sales, online booking and check-ins, and customer support after the sale (rating system, cleaning, etc.). Besides vertical integration, Airbnb has focused on geographic expansion and, since its Experiences business launch, product market expansion. Due to Experiences still being such a small business line for Airbnb, it is still a single business firm with potential down the line to become a related diversification business if Experiences takes off.

Airbnb has been quiet with mergers and acquisitions since its IPO in 2020 but before its IPO was quite active growing its product portfolio and improving its tech stack. Most of the acquisitions were smaller, being less than ~\$200M and easier for Airbnb to integrate into its platform. It is hard to gauge the effect Airbnb's acquisitions had on its valuation since all the acquisitions were made when Airbnb was a private company but it is easy to infer that the acquisitions helped Airbnb flesh out its tech stack and product portfolio, making it a firm ready to IPO and expand geographically.

Airbnb's code of ethical conduct is centered around their core values – Champion the Mission, Be a Host, Embrace the Adventure and Be a Cereal Entrepreneur. It states that the code of ethics applies to every employee, officer, and director at Airbnb as well as its subsidiaries. The largest three shareholders of Airbnb are its three founders, showing the commitment the trio has to the firm. Overall, insiders own roughly 33% of the company, institutions own 21%, VC firms own 10%, the general public owns 34%, and the remaining equity is owned by private companies.

From an organizational structure perspective, Airbnb runs a functional structure with groups in finance, legal, operations, HR, etc. This structure is ideal for Airbnb due to its narrow focus on travel and rentals. In addition, the company prides itself on having a flexible and nimble structure, allowing most employees to work from home. To incentivize performance, the board implemented cash bonuses and an equity-based compensation plan.

# Analysis

## Component 1 - Airbnb Overview

### History of Airbnb

Founded under the name “Air Bed and Breakfast,” Airbnb was originally a not-so-serious way for two roommates in San Francisco to make some extra money to help cover rent. There was a design conference in town, and the two roommates offered an air mattress, free wifi, small desk space, and breakfast for \$80. After the success of their first stay, founders Brian Chesky and Joe Gebbia realized that this idea could be a success and asked ex-roommate Nathan Blecharczyk to join.

Originally, the team worked for a few months on a roommate matching service but eventually went back to the Air Bed and Breakfast website. Twice, Air Bed and Breakfast attempted to launch with no success, and attempts to get capital from investors were unsuccessful. In a desperate attempt for cash, the team went to the Democratic National Convention in 2008 and sold novelty cereal boxes of “Obama-O’s” and “Cap’n McCains,” where each box came with information about their company. They managed to collect \$30,000 to put toward the firm. Finally, they got the attention of a startup accelerator.

Pulling from their design background, the team went around to each of the hosts on their site, staying with them, writing reviews, and taking professional photos of each space. In 2009, the company officially rebranded to Airbnb, no longer associating with air mattresses. This move proved fruitful, as they were able to pick up significant investments after the rebranding. By 2011, Airbnb was in 89 countries with over one million nights booked through their platform. They quickly picked up more significant investments, valuing them at over \$1 billion.

Since reaching success, the company has begun running into significant problems, including guests trashing hosts’ residences, hosts being evicted from their buildings for listing on Airbnb, and cities threatening to ban Airbnb for various reasons. Though Airbnb has attempted to remedy its legal troubles by offering insurance for hosts and paying hotel taxes to cities, there continues to be many ongoing legal battles. Airbnb went public on December 10th of 2020.

Of course, 2020 brought a whirlwind of changes that shook up every industry on Earth. Despite obvious struggles due to travel restrictions during 2020 and beyond, Airbnb returned stronger post-pandemic, posting their first profitable Q1 in 2022. Things continue to look up for Airbnb as they innovate the platform both for the guests who book their stays, but also for the hosts that post their properties. New products since 2020 include AirCover, which is an insurance/protection service for hosts, SplitStays, where customers can book their trip in 2 different homes to extend stays, and more.

### Principal Business Model

Airbnb operates a two-sided marketplace model that connects travelers to hosts and/or experience providers. When a booking is created using the website, the company collects revenue from service fees that are charged to both guests and hosts. This platform tax is 5-15% of the booking charge to the guest and 3% charged to the host. According to their annual report in 2020, Airbnb generated \$6 billion in service fees by charging an average of 13% on the average booking value of \$156.



The company boasts that its system “allows millions of strangers to trust one another” by booking on Airbnb’s platform through secure payments and the ability to post reviews after their stays. With fraud detection, screening, and verification, Airbnb is able to collect payments entirely electronically, thus no physical cash is ever traded during the experience. With fraud and scam prevention, secure messaging and account protection, and a guest refund policy, Airbnb is able to strengthen the trust and safety of its platform.

Airbnb’s mission is “To live in a world where one day you can feel like you’re home anywhere and not in a home, but truly home where you belong,” which helps bolster their dedication to the platform that they have created. By caring for their clients, both the guests and hosts, Airbnb will continue to change the way we vacation so that we can belong anywhere.

### Management Team

Top management includes several individuals, with two co-founders still an active part of top management. These co-founders include Brian Chesky: CEO and chairman of the board, and Nathan Blecharczyk: Chief Strategy Officer and Chairman of Samara and Airbnb.org. The rest of the top management team is comprised of many impressive individuals.

#### **Richard Baer**

Richard Baer serves as Chief Legal Officer. Richard joined Airbnb in 2019 after distinguishing himself as a top lawyer for large public companies. The National Law Journal named Richard as one of the country’s best and brightest top general counsels. Richard has an impressive track record, serving Qwest Communications, United Health, and Liberty Media (Airbnb, Inc., 2019).

#### **Ari Balogh**

Ari Balogh serves as Chief Technology Officer. Ari joined Airbnb in 2018 as the firm saw the next step in its journey to utilize technology to better its travel experiences. Prior to joining Airbnb, Ari had years of technical experience at Google and Yahoo. Since starting, Ari has overseen Airbnb’s Engineering and Data Science organization. This includes Information Technology and divisions such as Payments, Community Support, and Growth & Traffic (Airbnb, Inc., 2019).

#### **Dave Stephenson**

Dave Stephenson serves as Chief Financial Officer. Dave joined the Airbnb team in 2018. Dave focuses on investing in and creating new businesses that will power the firm’s long-term growth plans. He has decades of experience growing new business units at powerhouse firms such as Amazon. At Amazon, Dave was CFO of their Worldwide Consumer Organization, which is responsible for global website sales for Amazon’s subsidiaries, such as Whole Foods and Zappos. Dave has also worked at Big Fish Games and Proctor & Gamble (Airbnb, Inc., 2019).

#### **Catherine Powell**

Catherine Powell serves as Head of Airbnb Experiences. Catherine leads Airbnb’s Experiences business, managing a vast team that spans five continents and strives to increase the number of high-quality rental offerings available to customers. Prior to Airbnb, Catherine spent the last two decades working at Walt Disney, where she delivered immersive experiences to the company’s thousands of guests. Her main goal

moving forward is to adjust Airbnb's offerings to best fit Millennials and Generation Z's preferences and spending habits (Airbnb, Inc., 2020).

### **Tara Bunch**

Tara Bunch serves as the Global Head of Operations. Tara joined Airbnb in 2020 and was tasked with overseeing Airbnb's Customer Service, Trust & Safety and Payments teams. Prior to Airbnb, Tara spent eight years at Apple, where she served as Vice President of AppleCare. At AppleCare, Tara optimized Apple's repairs and services function, which serves thousands of customers each year. Before Apple, Tara spent time at Hewlett Packard, leading the firm's service and support operations (Airbnb, Inc., 2020).

### **Beth Axelrod**

Beth Axelrod serves as VP of Employee Experience. Beth joined the Airbnb team in 2017 and has been a crucial piece of Airbnb's success. As VP of Employee Experience, Beth leads the human capital management portion of Airbnb's operations and makes sure everyone feels at home working at Airbnb. Prior to Airbnb, Beth served as Senior Vice President of Human Resources at eBay, helping the firm quickly scale. Beth has also worked at WPP Group and McKinsey & Company (Airbnb, Inc., 2019).

### Company Goals

As a preface, due to the effects of the COVID-19 pandemic and the actions the firm took to help mitigate its spread, Airbnb's operations and financial conditions have been adversely impacted. This has led to an adjustment of several of the long-term strategic plans that Airbnb had in place for several years. Additionally, laws, regulations, and rules that have been established for short-term rental and house-sharing businesses have also impacted how Airbnb is planning for the future.

One of the more unique long-term goals of Airbnb is to unlock more hosting opportunities. Airbnb identified emerging travel trends such as more localized travel and remote-working and has been designing experiences to fit these specific cases, such as long-term stays of 28 days or more or high-quality experiences that emphasize the local atmosphere.

Airbnb hopes to continue to invest in its brand to continue its expansion of hosts. More specifically, they intend to leverage their brand to create cohesive strategies which pinnacle in product launches. They have only just launched new products in the second and fourth quarters of 2021.

Their long-term goals are foggier; they describe them as designing new products and offerings. By continuing to produce new technologies with their expertise as the world continues to change, they will be able to offer new experiences for guests and new possibilities for hosts.

## **Component 2 - External Analysis**

### Influential External/General Environment Segments

The segments that will influence Airbnb the most in the next five years are environmental, sociocultural, legal, and technological. Trends in the political and economic segments exist, too, but they are more influential in traveling as a whole rather than just to Airbnb.

One prevalent environmental trend is the increased awareness and concern surrounding climate change and climate stewardship. This presents an opportunity for Airbnb as they are typically more environmentally conscious than hotels and can appeal to these consumer preferences (Airbnb, “New Study”). The socio-cultural segment includes the most influential trends. The main trends are an increased focus on experiences, post-COVID-19 traveling, work-from-home/hybrid work shifts, and guests’ desires for more space to cook when traveling (Ristoff). These trends all present opportunities for Airbnb for various reasons. A threat in the legal segment Airbnb should consider is the varying and adapting housing regulations across countries and nations. Airbnb hosts have gotten into deep waters by violating regulations, and this poses a legal and financial threat to the company (Farooq). Perhaps a trend that Airbnb has been exploiting most effectively is the technological trend of consumers' increased reliance on technology and desire for effective and organized online interfaces. Airbnb has developed an impressive online and mobile application that streamlines the entire booking, check-in, and review process as well as supports communication between hosts and guests.

We explain the key trends and their associated opportunities or threats in further detail in **Table 1.1**.

#### *Industry Profit Potential*

The Extended Stay Hotels industry is expected to experience growth over the five years to 2026 (Ristoff). Revenue for the Bed and Breakfast and Hostel Accommodations industry is also projected to recover at a sharp rate over the next five years (Le).

**Rebounding economy and post-pandemic travel** – The industry is anticipated to expand due to a rebounding global economy and an anticipated return of international and business travelers. IBISWorld expects industry revenue to rise an annualized 6.9% to \$22.4 billion over the next five years. This rise mainly stems from increased travel post-pandemic, as concerns regarding the pandemic are anticipated to decrease. Additionally, many consumers that previously postponed travel will likely rebook, boosting demand (Ristoff).

**Increased spending and travel budgets** – Consumer spending is estimated to increase an annualized 2.3% over the next five years. Business spending is also anticipated to increase as corporate profit rebounds from lows endured in 2020, which will likely contribute to increased demand for extended stay hotels from the corporate sector. As consumers earn higher incomes and businesses recover their budgets to pre-COVID levels, travel spending is projected to increase over the next five years. Over the next five years, trips into the US by non-US residents are anticipated to rise by 16.6%, and domestic travel is expected to grow by 9.4%. Travel is expected to reach pre-pandemic levels in the next five years (Ristoff).

Industry profit is anticipated to increase over the next five years, despite increased external competition. This is predominantly due to increasing demand for travel accommodation, international travel, and shifting consumer preferences for experience over physical products.

### Porter's Five Forces

As stated previously, the profit potential of the extended stay travel industry is expected to reach \$22.4 billion by 2026, with Airbnb's challenge being to capture as much of this post-pandemic growth as possible. To better view obstacles of the industry as a whole, we can use Porter's Five Forces model to view five different forces affecting the profit potential of the lodging industry going forward. While this is an industry-wide analysis, references to Airbnb will be frequent to frame the firm's competitive strategy best.

Of the five forces, two threats emerge as most evident to firms within each industry: the threat of new entrants and the threat of substitutes. We view the lodging industry's threat of new entrants as low, at least to compete on Airbnb's scale. Massive marketing spend is needed for both hosts and customers to be detached from Airbnb, and Airbnb has already been decreasing marketing spend over the past few years as the company "now looks at the role of marketing as one of 'education', not 'to buy customers'" according to CEO Brian Chesky (Jefferson, 2022), indicating the firm's own confidence in their established competitive standing. With numerous companies already inhibiting the lodging industry, on top of high capital requirements and creating the necessary brand exposure, it is near impossible for a competitor to step in at Airbnb's scale. In terms of substitutes, options are heavy for customers on a limited scale. Finding another apartment in lower Manhattan to be rented out on any given day is difficult, so direct substitutes in terms of aesthetics and experiences are hard to come by. But merely looking for a place, customers could be turned off by Airbnb's high fees and switch to more traditional hotel or couch-surfing options in the area. Especially given Expedia and Booking.com's options to search across a variety of offerings, options remain heavy for the consumer. To Airbnb's credit, their hospitality moat has been impressive, boasting a company-wide 4.7 of 5 ratings across their hosts (Zervas, 2021) and providing safe zones for both hosts and guests that continue to draw both to the platform.

The power of both hosts and guests must be looked at as well to get a full grasp of the profit potential of the industry. Hosts (which are considered the suppliers on Airbnb's marketplace) have a medium hold on their own positioning, as there is a limited number of rooms to rent out of the housing market as a whole, and it is completely up to the host to list or not. Granted, many rental listings have transitioned away from just being an extra bedroom in the house, and, as hosts and full homes have saturated the market, companies like Airbnb have gained a greater grasp of their hosts through selection methods (i.e. the "Super Host" feature). Guests have the true control in this industry, especially as seen during the Covid pandemic. Travel is still an unnecessary good, especially diverse and out-of-the-way offerings like Airbnb. Given the likelihood of a recession soon, the power of buyers could loom quite heavily in coming years.

Finally, the intensity of competitive rivalry in the industry is viewed as moderately high. As an unnecessary good, all competitors are yearning for the gaze of the consumer's extra dollars, and in this framework a lot more can want to be spent on any trip that an Airbnb is a part of, from business meetings to holidays. In this sense, the rivalry is strong enough to push margins of even tech heavy, low asset companies in the sector. On the industry's side, top competitors really do have the edge amongst market share, from large hotels to Airbnb and VRBO.

The main challenge in analyzing Airbnb's industry is the complexity of comparing its breakthrough technologies to traditional, steadfast lodging options. While companies like Marriott and Hilton have a fairly set number of offerings available and can only offer existing hotels and amenities in place, Airbnb's offerings change daily and are far more complex than just hotels. This plays into their dual Online Travel Agency-Lodging model, providing customers with up-to-date options and differentiation compared to competitors like Marriott and Hilton and giving them an excuse to refresh Airbnb's homepage every day.

### **Component 3 - Internal Analysis**

#### Industry Environment

Generally, Airbnb as a firm seems optimistic about the rise of travel post-COVID, as well as the desire for many Americans to travel for an extended period of time following the rise of the work-from-home movement. In a letter to shareholders, Airbnb executives wrote, "Through our adaptability and relentless innovation, we've been able to quickly respond to this changing world of travel. Now, two years into the pandemic, Airbnb is substantially stronger than ever before" (Q1 2022 Letter to Shareholders). Q1 of 2022 showed Airbnb's strongest quarterly numbers ever, exceeding 100 million Nights and Experiences booked on the platform (Q1 2022 Letter to Shareholders).

Of course, outside influences continue to put pressure on Airbnb and pose a potential threat. For example, many guests find the added fees associated with an Airbnb to be unnecessarily high and not worth the cost of the booking. Cleaning fees, in particular, are racking up, with the cleaning fee across all U.S. properties averaging \$143 (Rana, 2022). For many guests, it would be cheaper to book a hotel and ditch the cleaning fees. Additionally, cleaning isn't an expectation at many hotels, whereas Airbnb hosts are increasingly relying on their guests to complete chores. One host, Deric Tikotsky said, "This chore business is giving us a bad rep and causing guests to flee to hotels." Though these threats may seem minimal, the competition is fierce in the lodging industry, and minor inconveniences could send guests to a competitor.

Despite this threat, Airbnb may have created another opportunity to make money from a customer even if said customer is staying with a competitor. This is through their new offering: Airbnb Experiences. A traveler staying in a hotel chain looking for activities to do with family or friends could look on Airbnb to book these experiences, without having to have booked a stay with Airbnb. This could be a huge opportunity for Airbnb as they have opened themselves up for the potential to earn a profit from customers staying with a competitor, as well as exposing customers to their platform, increasing the chances of a later booking.

#### Core Resources/Capabilities

Airbnb is built upon its ability to connect people looking for a place to stay and those willing to host them. This primary capability is crucial to Airbnb's competitive advantage. This important ability can be divided into a few vital resources.

**App/Computer software:** Airbnb's user-friendly website and app provide customers with an easy way to book lodging. Their computer software can connect the host with the consumer efficiently in a seamless process. For example, Airbnb's home page contains a search bar for people with specific vacations in mind, categories to explore specific genres of lodging or experiences, and filters to narrow down options. It provides opportunities for browsing and booking on the spot.

**Vast host network:** Airbnb has over 4 million hosts that offer unique and entertaining lodging experiences around the globe. The vast supply of hosts provides consumers with an extensive array of options for pricing, size, locations, etc., to choose from. It offers luxurious houses for higher incomes or a small mattress in a shared living space for those on a budget. With more options, Airbnb can target more significant sections of the market.

**Customer data:** By capturing a large part of the market, Airbnb can collect data on market trends and consumer preferences. Growing data from Airbnb's initial application and specifically their addition of HotelTonight have allowed the firm to gain insights into travel habits across the board. From noticing which areas have the most extended lodging stays in August to which hotels/areas are most used as last booked spots on any given business night, Airbnb has a growing database of millions of diverse travelers that is unrivaled by many. With this data, the company can predict market trends and expand its business accordingly. The storage capacity offered by AWS allows Airbnb to organize and operate its data seamlessly.

With resources, like a vast and efficient network that provides a valuable and unique experience or a wide range of crucial market data difficult for competitors to imitate, Airbnb has a sustained competitive advantage in the lodging market.

#### Core Competencies

Airbnb's core competency can be explained most succinctly as: a customizable and adaptable search engine. Their detailed and extensive search engine allows consumers the capability to filter based on price, desired experience, length of stay, and more. And the company continues to add features as they see new desires arise.

Airbnb offers an enormous and ever-evolving range of places to stay all across the globe for every type of consumer, allowing them to reach a wide variety of market segments. They focus on providing an *experience* rather than just a place to sleep, demonstrated by their recently added fun and unique search categories, which include but are not limited to, 'OMG!', 'Off the Grid', Treehouses, iconic cities, and even windmills and boathouses. Their locations are also not limited to highly-populated areas, which is one challenge hotels struggle to overcome. Their hosting platform allows them to supply places to stay in some of the most hidden corners of the Earth (such as Crete, Nebraska!).

Airbnb's booking process and communication between hosts and guests are streamlined and reliable. Their booking process makes it easy to search based on length of stay, number and types of guests, prices, and desired living arrangements. They continually adapt their website, mobile application, and search capabilities as they notice changing consumer preferences. For example, they recently added "Split Stays," allowing guests to split a trip between 2 different homes in one trip. Airbnbs are becoming especially popular for long-term trips and group trips. Per the quarter two report, "Long-term stays accounted for 19% of gross nights booked in Q2 2022, up from 13% in Q2 2019 and flat with Q2 2021."

Value Chain Analysis

Airbnb has numerous value chain activities that allow it to generate value for its customers. The tables below summarize the key primary and secondary activities that Airbnb focuses on.

Primary Activity	Primary Activity	Primary Activity
<p><b>Marketing &amp; Sales</b></p> <ul style="list-style-type: none"> <li>Marketing is essential to drive customers and hosts to Airbnb’s website</li> <li>Airbnb believes one of its core strategies for success is to invest in its brand, with one popular campaign being “Made possible by Hosts” where Airbnb highlights customer experiences</li> <li>Airbnb has reached a steady state of marketing spend</li> <li>Airbnb spent \$1.2B in marketing during 2021</li> </ul>	<p><b>After Sales Service</b></p> <ul style="list-style-type: none"> <li>Deliver quality customer service post rental booking is vital for Airbnb to keep a devoted customer base</li> <li>Airbnb has invested heavily into a customer support team that ensures each transaction goes well for customers</li> <li>Since 2019, Airbnb’s refunds made by its customer support teams has decreased due to improving year over year customer satisfaction</li> </ul>	<p><b>Website Management</b></p> <ul style="list-style-type: none"> <li>Airbnb does not have to partake in supply chain management, its “supply chain” is its website</li> <li>Airbnb has developed a highly integrated and useful website and mobile app to give users great ease of access</li> <li>Airbnb has stated they plan to continue to invest in its website to give customers and hosts more ways to connect</li> </ul>

Secondary Activity	Secondary Activity	Secondary Activity
<p><b>Research &amp; Development</b></p> <ul style="list-style-type: none"> <li>In order for Airbnb to maintain its competitive advantage, its constantly innovating</li> <li>In 2021, Airbnb spent \$1.4B on product development, in 2020 it spent \$2.8B as the firm saw an opportunity to get aggressive with hotels struggling during the pandemic</li> </ul>	<p><b>Human Resources</b></p> <ul style="list-style-type: none"> <li>Airbnb employs over 6,000 employees in 27 cities around the world to pursue its goals</li> <li>In addition to employees, Airbnb utilizes over 8,700 third-party partners that spread over 23 cities that help with community facing conflicts</li> </ul>	<p><b>Accounting &amp; Finance</b></p> <ul style="list-style-type: none"> <li>Airbnb utilizes its accounting and finance department to keep track of important operational and financial metrics such as revenue growth and profit margin</li> <li>The firm has invested in its accounting systems to make its financials easier to interpret for investors, helping give the firm a strong capital base to work off of</li> </ul>

## SWOT Analysis

### **Strengths**

Airbnb's greatest strength is its globally recognized brand that people know just as well as Hilton & Marriot and know better than VRBO. Airbnb has over 7 million listings in over 200 countries. VRBO has only 2 million listings in 190 countries (Alchemy Leads, n.d). If a consumer is looking for a vacation home, they are more likely to find more options on Airbnb than on VRBO. Compared to hotels, a strength Airbnb has is its cheaper yet unique alternatives. From 2019 to 2021, the average global hotel price was \$232, while the average global Airbnb was \$137 a night (*If Looking for a Hotel Deal, It Might Pay to Wait Until the Last Minute*, 2021). This price difference, plus Airbnb's unique locations and offerings, give Airbnb a competitive advantage over hotels. Another general strength of Airbnb is its customizable search engine. Airbnb has a unique algorithm that filters millions of listings to find the right listings for each customer. This algorithm takes into account quality, popularity and price and is more in-depth than a traditional hotel website algorithm that focuses on location. Lastly, Airbnb is excellent at creating a human connection between guests and hosts that traditional hotels do not.

### **Weaknesses**

Airbnb's biggest weaknesses moving forward are its growth prospects and profitability. Airbnb had a negative net income from 2018 to 2021, and its revenue growth has slowed over time, with the company stating it expects growth to continue to slow into the future. Airbnb will have to adjust its strategy from growth mode to profitability and be cost-focused to please shareholders. If the company cannot adjust, its stock price will drop. Another weakness of Airbnb is its susceptibility to economic cycles. If the economy goes into recession, people will restrict traveling, thus having an adverse effect on Airbnb's finances. Also, the company must constantly come up with new incentives to retain and add new hosts to compete with VRBO and hotels. Airbnb may have to increase incentives and therefore costs to keep its host base. Another major weakness includes the business model's lack of easily implemented safety procedures and best practices compared to hotels.

### **Opportunities**

Opportunities for Airbnb include society's increased focus on working from home, experiences and travel post-Covid-19, and technology. First, roughly 58% of Americans have the option to work from home at least part-time, according to McKinsey & Co (McKinsey&Co, 2022). If Americans do not have to be in the office to work, there is nothing stopping them from being at an Airbnb and working. If Airbnb plays into and markets this idea, Americans working from Airbnbs could be an easy way to expand its consumer base. Secondly, society values experiences and travel more than before the Covid-19 pandemic. Many Americans had taken travel for granted and are making sure to travel now that the country has begun to reopen, with July 2022 traveling numbers back up to 2019 levels and future months likely to pass 2019 as the pandemic continues to subside (U.S. Travel Association, 2022). Lastly, society's ever-increasing adoption of technology allows Airbnb to expand its technological uses. This could look like virtual reality tours of Airbnbs or further improvements to the app and search engine.

### **Threats**

There are numerous economic threats to Airbnb, including rising interest rates and housing laws and regulations, and business model threats including hotels making a comeback post Covid-19. Regarding rising interest rates, the current federal funds range is between 2.25% and 2.50% but many experts predict the Central Bank could raise rates to the 4.5% to 6.0% range (Fox Buisness, 2022). Higher interest rates could hurt stock prices and diminish people's retirement funds, restricting people's willingness to spend



money and travel. Also, the US government is always tinkering with housing laws and regulations. Any adverse changes in laws to short-term, long-term rentals and home sharing businesses could adversely affect Airbnb. Lastly, hotels have made a comeback in 2022, with Marriott's stock up ~9% over the past year and Hilton up ~2% (as of 9.18.2022). If hotels continue to gain momentum and pull away travelers from Airbnb, Airbnb could be adversely affected.

#### **Component 4 – Performance Analysis**

##### *Firm Performance*

Airbnb is performing very well relative to its expectations. Their quarterly revenue for both the first and second quarters of 2022 exceeded that of the first and second quarters in 2021, as noted in *Chart 2.1, Airbnb Quarterly Revenue* (Airbnb, 2nd Quarter Form 10-Q, 2022). They exceeded Wall Street's expectations for revenue and bookings with a reported 83.1 million nights and experiences booked, up 29% from the first quarter and up a whopping 197% from the prior year (Rodriguez). While Airbnb reported a net loss of \$352 million in 2021, this figure is a huge contrast to the \$4.5 billion it lost in 2020 during the pandemic (*see Chart 3.1, Airbnb Net Income/Loss*). Furthermore, for their first time since their inception, their earnings in the first half of 2022 have reached positive figures. In the quarter two earnings call this August, CEO Brian Chesky commented on their profitability saying, "We had our most profitable Q2 ever with net income of \$379 million—a nearly \$700 million improvement from Q2 2019."

Airbnb also exceeded 103 million nights and experiences booked in quarter two, their highest quarterly number ever, followed just behind 100 million bookings in quarter one. Brian Chesky signaled just how confident Airbnb is feeling by announcing a \$2 billion share repurchase program in August 2022. He explained that guest demand is only increasing, and it is not just increasing for vacationers. In the 2021 Q4 Earnings Call he explained, "...guests are not just traveling on Airbnb, they are now living on Airbnb. Nearly half of our nights booked in Q4 were for stays of a week or longer. One in five nights were for stays of a month or longer. Moreover, nearly 175,000 guests stayed for three months or longer in the past year alone."

CEO Brian Chesky attributes Airbnb's success to these main components:

- **Airbnb's adaptable business model:** They continue to adapt their offerings as consumer travel preferences change. Just this year, they added a whole array of accommodation categories and customization capabilities to their search engine.
- **Disciplined and streamlined operations:** They were forced to make tough decisions during the pandemic to stay afloat, but now they have become a more focused and leaner company in their ongoing operations (Airbnb, 2nd Quarter Form 10-Q, 2022).

Overall, Airbnb's business is picking up after suffering some hard times during the pandemic. Their revenues and profits are increasing as their number of bookings and hosts increases simultaneously.

##### *Performance Metrics*

Airbnb has a holistic stakeholder perspective when evaluating performance. The company focuses on financial metrics for shareholders and host/guest satisfaction for "employees" and customers. As mentioned previously, Airbnb's CEO stated in an earnings call that guests are increasing their lengths of stay dramatically, and Airbnb is paying special attention to this statistic. This indicates they are tracking

how long guests are staying with Airbnb, and the company infers longer stays mean better customer satisfaction.

From a host perspective, Airbnb touched on its importance in its Q2 2022 earnings call, "...guest demand is driving the growth of our host community. We continue to see the strongest supply increases in areas of greatest demand, with non-urban active listings up 50% compared to Q2 2019. But as demand is returning to cities, we also see an increase in total urban supply. And we believe the upgrades we introduced last year, including our new host onboarding flow and AirCover, are supporting this growth" (Airbnb, 2022). Airbnb understands in order to be successful; they have to grow the demand and supply sides of its business. Besides covering guest/host satisfaction in earnings calls, the company utilizes a robust review system to ensure guest and host voices are being heard.

Also, as a large public company, Airbnb focuses on financial metrics. The first topic Airbnb covered in its latest earnings call was financials, "Revenue was \$2.1 billion, up 58% from last year...Gross booking value was \$17 billion, up 27% from last year or 34%...both revenue and GBV were 73% higher than Q2 2019, significantly outperforming the travel industry." (Airbnb, 2022). The company made sure to point out Airbnb was outperforming the broader travel industry because that is important to its shareholders.

### Competitive Advantage

Airbnb possesses a number of core competencies that sets it apart from other lodging competitors, particularly hotel chains. One core competency in particular that sets Airbnb up for a sustained competitive advantage is the ability to meet various customer segment needs, no matter who is booking through their platform. There are suitable options for large families, single travelers, a massive variety of unique locations, various experiential opportunities, and more. This is where some hotel chains can fall short. Though hotel chains like Marriott offer a variety of differently priced options, travel can be restricted based on where a chain might be located, how many people can sleep in a room, etc. These hassles might be worth it for those who maintain loyalty to a specific chain, but for many, it limits options and adds stress to travel. Not only does Airbnb meet the segment needs of families and adventurers, they also meet the needs of the extended-stay traveler much more reasonably than hotel chains do. This is steadily becoming a more important piece of their advantage, with the number of 28+ day stays increasing. "Long-term stays accounted for 19% of gross nights booked in Q2 2022, up from 13% in Q2 2019 and flat with Q2 2021," said Airbnb.

Another major strength of Airbnb is that their business model allows them opportunities to create revenue streams from multiple different customer segments, be it hosts listing properties, travelers booking trips, or local businesses listing experiences. As mentioned above, the desire of travelers to experience more unique travel experiences has more people looking to Airbnb to accommodate their needs. Individual hosts with a unique property can share those on the Airbnb platform with no cost to the company, and Airbnb benefits because both the host and the traveler pay a fee to Airbnb when the property is booked. Add in the new Experience section on the website, and the company has another opportunity to take a cut of a transaction. This ability to reach so many different customer segments is due to their unique resources, a sure source of competitive advantage. For Airbnb, their unique resources include the millions of individual listings on their platform that span the entire globe, and the sheer volume of different offerings within these locations. The operational cost of these listings comes at little to no cost to Airbnb,

an entirely different experience from the hotel chains seeking to expand. Examining various accounting metrics further suggests that Airbnb has a sustained competitive advantage.

### Compensation Incentives

Airbnb utilizes a third-party research firm to ensure their compensation schedules are similar to competitors. A compensation report is compiled and then used by Airbnb's Board of Directors to judge Airbnb's current compensation plan. The competitors on the report have operations like Airbnb, so they are software and tech-focused. As such, firms like Marriott are not on the list, while other firms hiring data scientists and software engineers (like Uber, Zoom, and Netflix) make up the bulk. This embodies Airbnb's nature as a cutting-edge tech firm, as not only do their hiring practices mirror those along Silicon Valley, but also their compensation tables vest at considerably high market capitalizations over the next 10 years (implying a 152% increase in share value over the time period). This is similarly seen in the management's pay schedules, as a vast majority of compensation for higher executives is given in the form of stock, stock options, and bonuses earned, barring performance incentives. Compensation amounts were vastly cut through 2020 and the Covid-19 pandemic but are returning to higher levels as the company and stock continue to grow at a rapid pace.

Airbnb's top management team has five people who differ on compensation amounts. The overall compensation for each member as of 2020 is as follows (these numbers are likely slightly different in 2022) :

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation \$(3)	Total (\$)
Brian Chesky	2020	55,000	—	119,880,000	—	—	164,075	120,099,075
<i>President and Chief Executive Officer</i>	2019	110,000	—	—	—	—	310,982	420,982
Dave Stephenson	2020	450,000	1,425,000	4,134,448	3,250,207	—	8,428	9,268,083
<i>Chief Financial Officer</i>	2019	588,462	1,200,000	17,115,697	—	321,053	8,897	19,234,109
Joe Gebbia	2020	200,000	120,000	10,673,708	11,822,687	—	2,227	22,818,622
<i>Co-Founder, Chairman of Samara and Airbnb.org</i>								
Nate Blecharczyk	2020	200,000	120,000	10,673,708	11,822,687	—	2,227	22,818,622
<i>Co-Founder, Chief Strategy Officer, Chairman of Airbnb China</i>								
Catherine Powell (4)	2020	399,231	425,000	7,065,699	6,916,075	—	10,722	14,816,727
<i>Global Head of Hosting</i>								

### Management Pay Breakdown (2020):

Name	Salary	Bonus	Stocks	Options	Non-Equity	Other
Brian Chesky	.046%	0%	99.818%	0%	0%	.137%
Dave Stephenson	4.855%	15.375%	44.610%	35.069%	0%	.094%
Joe Gebbia	.876%	.526%	46.776%	51.812%	0%	.009%
Nate Blecharczyk	.876%	.526%	46.776%	51.812%	0%	.009%
Catherine Powell	2.694%	2.868%	47.687%	46.677%	0%	.072%

Average:	1.869%	3.859%	57.133%	37.074%	0%	.0642%
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As seen, “the total grant for Brian Chesky, CEO, amounts to around \$120 million, while other executives receive between \$20 and \$40 million. In addition, the CEO's grant is nearly 100% variable compensation composed of only restricted stock with a long vesting time of 10 years and an additional 2-year hold period.”(Samkoff, 2022). Based on 2020 compensation, the average percentage that is guaranteed salary is only about 1.869% for the management team.

## Component 5 - Competitive Dynamics

### Industry Concentration

When looking at industry concentration, we chose to look at the total share of sales in the lodging industry to compare Airbnb’s main competitors. Of the total lodging sales in 2019, Airbnb composed 19%, followed by VRBO with 11%. Traditional Hotels compiled a whopping 71% still, with the number said to be decreasing (Gessner, 2019). There are multiple categories of competition when considering Airbnb’s competitors within the lodging industry. For example, similar competitors, like Expedia Group’s VRBO or Booking.com, offer more marketplace services similar to Airbnb’s suite of offerings. On a greater scale, Airbnb is really attempting to take a bite out of the hotel and lodging industry through its brand recognition. The entire lodging industry is highly concentrated due to the numerous options consumers have when booking a place to stay. While hotels control a large part of the market share, Airbnb offers more experiences and styles of lodging, making it stand out from traditional competitors like Marriott or Hilton. Further, Airbnb has more of the market than similar VRBO and other house-sharing sites, and their purchase of HotelTonight in 2019 further expanded their share in the secondary lodging space.

### Competitors

We chose to evaluate VRBO (NASDAQ: EXPE). The companies have very similar resources and business models. For example, they use very similar employee bases. Airbnb and VRBO employ software engineers to create their algorithms and user interfaces on their websites. Both firms also have vast host bases that they use to generate revenue. Another key resource that both firms have is data, and lots of it. Airbnb was founded in 2008, and VRBO was founded in 1995. These firms have a decade+ of traveler and host data to draw on to match potential guests with the best possible rentals possible based on location, price, and various other preferences. Lastly, both firms also have well-built websites as resources. Their marketplace business models rely on having good websites for guests and hosts to connect.

While the businesses have very similar resources, there are a few key differences. The main difference between the company’s resources is their types of vacation rentals. VRBO focuses on vacations only, while Airbnb rentals have broader end uses, including business travel and shorter stays. Airbnb’s larger number of end uses inherently gives it a more extensive lineup of rentals, from cabins to luxury villas, while VRBO specializes in more traditional vacation condos. In addition, Airbnb has more listings

compared to VRBO, 7M to 2M, respectively, and Airbnb is in 200 countries compared to VRBO's 190 (Alchemy Leads, n.d).

Airbnb and VRBO compete in the home rental space and are direct competitors. However, due to their rental types, they target different demographics. Since Airbnb has a broader base of rentals, it attracts a younger audience and adventurers, as well as business travelers. VRBO targets families and the older demographic looking for vacation homes. Although different target demographics, the two companies have lots of overlap and are intense competitors.

### Strategic Responses

Airbnb has become world renowned for its incredibly unique ability to cater to the needs of every traveler. As the expectations change of what a one-of-a-kind travel experience could be, traditional hotel chains especially are scrambling to find ways to compete and offer some sort of differentiation. Two of Airbnb's greatest strengths are its user-friendly technology and ease of booking experiences along with lodging on its platform. Both boutique hotels and hotel chains are hoping to compete in these spaces as well.

Hyatt Global is attempting to take the experiential trend to the next level, and has developed the ATONA brand. This new hotel concept is based on a traditional Japanese guesthouse as it targets global travelers under their existing brand. ATONA is an immersive experiential hotel, which seeks to give guests the opportunity to experience a given region's architecture, culture, food, and much more (Schlappig, 2022). In partnership with independently managed properties, Hyatt hopes to capitalize on the consumer trend toward investing in unique experiences and aims to open in 2025.

Some hotels are also finding ways to integrate new technology into the hospitality experience. At the five-star Mandarin Oriental in Boston, a robot is at the center of the guest experience. Named MOBI, the resident automation greets guests and takes them to their rooms. After finishing the drop off he will also deliver amenities from the interior storage compartments. As contactless check-in began to grow during the pandemic, people began to become more comfortable with more and more automation. From luggage carrying robots to delivery robots, more and more lifelike animatronics will be entering the hospitality industry as newer technology becomes available.

### **Component 6 - Business-level strategy**

Airbnb is in a unique position where it utilizes a differentiation strategy and a cost-leadership strategy depending on how you analyze the firm.

Airbnb offers differentiated products and services. Their marketplace offers a variety of homestays and experiences that are differentiated through their unique locations and styles. Airbnb hosts often provide a wide variety of amenities such as a fully stocked kitchen, in-house washer and dryer, cleaning supplies, self check-in and check-out, and more, which further differentiates them from the typical offerings of hotels. Moreover, Vrbo only offers full homes, while Airbnb offers apartments and shared-living arrangements. Airbnb also has recently added experiences to their product offering. Users can search on

their website by experiences to find fun activities to do wherever they're traveling. Another key differentiator versus its biggest competition (VRBO) is its target market. VRBO likes to focus on vacation homes while Airbnb is more focused on business travel, short term stays, and renting houses for parties. While Airbnb certainly has vacation homes, it is not its sole focus like it is for VRBO.

So while Airbnb clearly utilizes a differentiation strategy to separate itself from VRBO and hotels, it also has a cost leadership strategy to clearly give it a step up over hotels. Airbnb pursues a cost-leader position in the hospitality business as their offerings are typically cheaper than hotels. Guests can elect to stay in a single room of a home, which is usually less expensive than a single hotel room. Guests can also save money because the listings are typically lower due to lack of overhead costs for Airbnb. In contrast to hotels, Airbnb does not have to pay salaries to employees such as front desk management, housekeeping, or maintenance.

Evidence of why Airbnb can utilize a cost leadership strategy in addition to a differentiation strategy is demonstrated through the known benefits of being an internet-based company. In the book *Strategy and the Internet*, Michael Porter explains that internet-based companies can limit their variable operating costs and instead are tilted more to having a fixed cost structure, showcasing high operating leverage. Because of this business model, Airbnb has high margins per new booking and charging a high price to achieve good margins is not necessary. In contrast to hotels that are affected heavily by rising variable costs, "Airbnb can offer an incredibly expansive list of rooms for little more than the price of the additional servers and engineers." In contrast to hotels whose main cost drivers include labor costs, rent and mortgages, property taxes, franchising fees, utilities, and marketing expenses which all rise rapidly as hotels grow, Airbnb's key cost drivers are the employees charged with marketing efforts, website development, and R&D which are largely fixed in nature. Once Airbnb clears its fixed costs and limited overhead, revenue goes straight to the bottom line due to its limited variable cost per new booking.

## Component 7 - Corporate-level strategy

The value chain for a company in the hospitality industry looks a little different than one of a more traditional retail or service company. Airbnb operates in all five areas of the value chain: inbound logistics, operations, outbound logistics, marketing and sales, and service. Below details the steps to Airbnb's value chain:

1. **Inbound logistics** is the step of acquiring raw materials and supporting supplies for use in the company. The main "supplies" for Airbnb are the listings for accommodations and the travel experiences.
  - **Key components:** Contracting hosts and developing listings, contracting hosts of local adventures or experiences
  - **Value creation:** Airbnb can offer accommodations that are in line with their vision and quality standards. They do not have to purchase raw materials or develop their own locations as they can rely on hosts to do the bulk of the work.
2. **Operations** include the steps that make the services possible and deliver the experiences to consumers. For Airbnb, this includes photographing hosts' residences, developing and maintaining their website, communicating with hosts, and managing their own employees at corporate offices.

- **Key components:** website, photography, corporate office
  - **Value creation:** Airbnb’s website allows for a streamlined user and host experience. Utilizing their own photographers ensures quality listings are developed and fit their brand image. Maintaining their website themselves instead of outsourcing the web development saves time, money, and allows them to create a website that meets the goals of their intended strategy.
- 3. Outbound logistics** in a service company such as Airbnb won’t include the intermediaries or time delays involved with delivering a product for conventional businesses. Airbnb’s outbound logistics revolve around providing a good customer experience and reliability during transactions. Airbnb fulfills this step by providing the booking and check-in/check-out process on their personal website. In comparison to many hotel chains, Airbnb does not distribute its listings to any other websites like Expedia or hotels.com.
- **Key components:** online booking and check-in, online payments, contactless check-ins
  - **Value creation:** Skipping the middle-man improves efficiency and saves money. It also makes the transaction process simpler for the hosts and the guests.
- 4. Marketing and sales** is the process of persuading customers to buy your product. Airbnb develops and performs its own marketing strategies. However, it is impressive to note that Airbnb does not spend a great deal on their marketing tactics. In 2022, “Airbnb shelled out just 18 percent of revenue in the June quarter on sales and marketing while Booking Holdings allocated 51.3 percent and Expedia Group 53.9 percent.”
- **Key components:** marketing and sales team
  - **Value creation:** Airbnb utilizes their customer loyalty effectively to avoid spending an exuberant amount of money on marketing and sales.
- 5. After-Sales Service** is the final step of the value chain. Airbnb provides after-sale services to their consumers such as aircover protection, cancellation policies, and customer service representatives to resolve issues. Depending on the host, the accommodation may provide between-stay cleaning. Airbnb also provides guests the ability to “rate” their host and hosts can in turn “rate” the quality of the guests. This provides a service to both types of users of Airbnb. AirBnB has discussed providing hosts even more services — from real-estate financing to physical supplies, devices and services to improve the properties and streamline the AirBnB guest experience. Airbnb also facilitates communication between hosts and guests via their messaging service within the app which further improves the experience for both hosts and guests.
- **Key components:** cancellation and Aircover policies, cleaning, rating system, messaging capabilities within app
  - **Value creation:** Hosts and guests alike benefit from the transparency of the process. They understand what services and benefits they receive, and they are able to hold each other accountable via the rating systems.

Overall, Airbnb operates an effective and efficient vertically-integrated business model. They handle every step from development of the listings to facilitating communication between guests and hosts to the final step of after-sales service. Being vertically-integrated streamlines their operations, saves money, and allows them to develop and offer products that align with their vision and goals for the company.

Besides vertical integration, up until 2016, Airbnb only focused on geographic diversification. The firm began its international expansion strategy in 2011 with opening the company’s first international office in

London. In 2013, the company continued to built on its international expansion strategy with establishing an office in Dublin (*Airbnb History: Founding, Timeline, and Milestones*, 2022). Since then, Airbnb has continued to expand into Africa, Latin America, and Asia. As of February 2022, 54% of the firm's revenue came from North America, 32% came from EMEA, 7% came from Latin America, and 7% came from Asia Pacific (Airbnb, 2022). The company has also stated it wants to continue to focus on expansion into emerging markets, where it sees a big growth opportunity. India and China are its countries of focus, mainly due to sheer population size. While on its face, Airbnb looks like it is purely going for international dominance, it has to be careful not to ignore local growth. Good local demand and supply dynamics are critical to Airbnb's success. To keep its core economics good, certain parts of a guest's travel experience need to be uniform anywhere, such as cleanliness and service. To ensure its focusing on both local and international markets, the company has employed a self proclaimed "Glocal" strategy. This "Glocal" strategy is evident in the firm's cleanliness standards, customizable currency payment options, and localized sign up methods (Gaga & Cooper, 2022).

Geographic expansion generates value for Airbnb because it can multiply its markets and product reach without spending lots of Capex dollars. Airbnb runs a Capex light business model to expanding into a new market and generating more revenue is an easy way for Airbnb to increase cash flow. Also, there are possible revenue synergies from international travelers, someone who uses Airbnb in the USA will likely use Airbnb in Europe if traveling there. Lastly, expanding internationally gives Airbnb further brand dominance and keeps it top of mind for guests.

During 2016, Airbnb's corporate diversification strategy shifted from a geographic expansion approach to a product-market diversification strategy with the launch of its Experiences business line. Experiences are daily activities led by local guides. Examples include wine tasting, hiking, dancing, and paragliding. While Airbnb does not share exact revenue numbers for Experiences, its estimated to have \$35 to \$50 million of revenue, a very small % of Airbnb's revenue (roughly 1%). Experiences low impact is mainly due to it operating in a fairly nascent market. Experiences is a more informal way of planning events that people are not used to so the market is still developing. Airbnb is hoping to capture value creating revenue diversification. Investors will like if not all of Airbnb's eggs are in one basket. For example, even during times of the year when travel is low (I.e Spring) hopefully Experiences would be able to generate enough revenue to smooth Airbnb's seasonality.

Since Airbnb has such low levels of business line diversification, it can be described as a single business firm. Over 95% of its revenue comes from its main line business of connecting hosts with guests. In the future, Airbnb might become a related diversification business if Experiences becomes 30%+ of Airbnb's revenue. If Experiences does grow to that level, Airbnb would be a Related-Constrated Diversification firm because Experiences pulls from Airbnb's existing competences and resources. Competencies of being a broker and resources of Airbnb's website and algorithms.

## **Component 8- Merger and Acquisition Strategies**



Acquisition	Date Acquired	Target Firm	Reason
<b>HotelTonight</b> A hotel-booking service focused on making last-minute trips easy and fun	March 7, 2019	Competitor	Helps Airbnb build its end to end travel platform. It was a horizontal integration play.
<b>Gaest.com</b> A platform for people to post and book venues in hourly or daily increments for meetings	January 25, 2019	Competitor	Helps Airbnb diversify its revenue stream and build its end to end travel platform.
<b>Trooly</b> An online security company that authenticates users	June 16, 2017	Supplier	Helps Airbnb protect its platform from bad actors by being able to authenticate users
<b>Deco Software</b> An app building developer	May 2, 2017	Supplier	Helps Airbnb develop its website and app and possibly other apps for its acquired startup brands
<b>Luxury Retreats</b> An Airbnb style service that focuses on high-end homes	February 10, 2017	Competitor	Helps Airbnb expand its product offerings to the high-end market

Figure 2: Recent Mergers<sup>16</sup>

The primary goal of Airbnb's acquisitions in the past five years has been to increase accessibility and differentiation of Airbnb's booking offerings. Whether that is ultra-luxury villas or disabled-accessible housing, Airbnb's strategy has been to appeal to a widening and diversifying consumer base. The firms acquired by Airbnb were all on ultrasmall scale operating levels compared to Airbnb and cannot be really considered competitors, although HotelTonight and Luxury Retreats are sizeable (~\$200M).<sup>17</sup> All of Airbnb's acquisitions have been of private companies, so it is unclear what kind of premium Airbnb paid for the acquired firms. Also, Airbnb went public in December 2020, past the point of any prior mergers and acquisitions. Airbnb paid for many of its acquisitions in pre-IPO stock, which has doubled in material value since. Airbnb's IPO debut was above expectations of \$68 per share and opened for trading at \$146 per share. This ballooned their valuation to \$100 billion.<sup>18</sup>

So far, we consider Airbnb's acquisition strategy to be a success. The firm's acquisitions were well-timed (pre-IPO) and supplemented some of its key value drivers, innovation, and tech stack. The acquisitions that helped widen the firm's product offering and were innovative include HotelTonight, Gaest, and Luxury Retreats. These acquisitions helped Airbnb get into the hotel, meeting, or high-end rental business. All helped Airbnb build its end-to-end travel platform. The more rental and travel options Airbnb can provide to consumers, the more market dominance it will create. The Trooly and Deco Software acquisitions helped Airbnb flesh out its tech stack, which was critical for the firm to gain and retain new customers. Not being able to keep out bad actors or make their website/app user-friendly would hurt Airbnb's growth prospects, so Airbnb did well to acquire these two tech firms.

Airbnb's acquisitions were only in the millions, but, that being said, Airbnb's revenues were still in the millions yearly as well and stood at 1/16th of current levels (for 2017 acquisitions). Still, all of Airbnb's acquisitions were smaller in scale and easy to integrate into Airbnb's platform, which is key to a successful mergers and acquisitions strategy.

## Component 9 - Corporate Governance

### Board Compensation

Airbnb employs a complicated compensation package for their board of directors, as the Board is a mix of employees and non-employees which further complicates the matter. All compensation information for Airbnb was found using the 2021 Proxy Statement filed with the SEC.<sup>18</sup> Under the Airbnb Non-Employee Director Compensation Policy, Directors are entitled to an annual cash retainer of \$50,000 per year plus additional compensation based on committee allotments. The Chairperson of the Audit, Risk and Compliance committee receives an additional \$40,000 cash retainer while each non chairperson of the same committee receives a cash retainer of \$15,000 for that member's service. The Chairperson of the Leadership Development, Belonging, and Compensation committee is entitled to an additional cash retainer of \$37,500 per year with each non-chairperson member receiving \$12,500 per year. The Chairperson of the Nomination and Corporate Governance committee receives an additional cash retainer of \$30,000 while the non-chairperson members receive \$10,000 per year. Finally, the Chairperson of the Stakeholder's committee receives \$37,500 annual cash retainer while each non-chairperson member receives an annual cash retainer of \$12,500 for services on that committee.<sup>19</sup> Additionally, however, the Lead Independent Director receives an additional \$25,000 cash retainer. While compensation is not broken down by attendance at meetings, Airbnb has a heavily favored in person attendance policy. Whenever necessary to miss in person you must notify the Lead Director and chairperson of the appropriate committee in advance. Additionally they say, whenever possible, must participate via a teleconference. Each director must attend at least 75% of the aggregate of total Board & Committee meetings or face removal. The Board of Directors met together For committee meetings during the 2021 calendar year: Our audit, risk and compliance committee met eight times, the leadership development, belonging and compensation committee met five times, the nominating and corporate governance committee met five times, and the stakeholder committee met four times during 2021. See table below for total compensation received by the Non-employee Board of Directors.

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)(2)	All Other Compensation (\$)	Total (\$)
Angela Ahrendts	75,000	299,904	—	374,904
Amrita Ahuja(3)	3,205	133,025	—	136,230
Kenneth Chenault	97,500	299,915	—	397,415
Belinda Johnson	87,500	299,870	—	387,370
Jeffrey Jordan	95,000	299,870	—	394,870
Alfred Lin	102,500	299,872	—	402,372
Ann Mather(4)	95,616	299,870	—	395,486

Figure 3: Non-employee Director Compensation Table for 2021<sup>20</sup>

\*Ms Ahuja joined Board of Directors on December 13, 2021

\*Ms Mather resigned from the Board of Directors effective December 15, 2021

### Committee Structure

Member	Audit, Risk & Compliance Committee	Leadership Development, Belonging and Compensation Committee	Nominating and Corporate Governance Committee	Stakeholder's Committee
Brian Chesky				○
Angela Ahrendts		●		○
Amrita Ahuja	○			
Nathan Blecharczyk				○
Kenneth Chenault*		○	○	
Joe Gebbia				○
Belinda Johnson				●
Jeffrey Jordan	○		●	
Alfred Lin	●	○		

● = Chair  
○ = Member

\*Lead Director

Figure 4: Board Structure<sup>20</sup>

### Board Structure

The Board of Directors at Airbnb is composed of several independent members (“non-employees”) as well as several Executives. Specifically, out of the nine members of the Board, there are five independent members. The overlapping members are Brian Chesky, Nathan Blecharczyk, Joseph Gebbia, who all hold current roles on the executive board and Belinda Johnson who has held several key roles in the past. Brian Chesk serves as the current Chief Executive Officer, Head of Community, Co-Founder and Chairman of the Board. Nathan Blecharczyk is the current Chief Strategy Officer, Chairman of Airbnb China, Co-Founder, and Director. Joseph Gebbia serves as Chairman of Airbnb.org, Co-Founder, and Director. Finally, while not a current employee, Belinda Johnson has held several roles at the company since 2011 including General Counsel, Chief Business Affairs and Legal Officer, and Chief Operating Officer. What is important to note about the structure of the Board of Directors is it is split into four committees (See question 3 for structure) as well as three classes. The nine directors are divided into three classes with staggered three-year terms which are voted on at the annual stockholders meeting at the time in which their terms are expiring. However, there is no current term limit according to their internal Bylaws. There is CEO Duality as Brian Chesk serves as CEO and Chairman of the Board while Kenneth Chenault serves as a Lead Director. And while Airbnb claims that it is committed to diversity within leadership, the self-disclosed demographics show that the board is heavily male dominated with six identifying men to just three women. Additionally, while there is someone who identifies as Black as well as two asian identifying members, the majority of the board (6 members) identify as white.

### Code of Conduct

Airbnb’s code of ethical conduct is centered around their core values – Champion the Mission, Be a Host, Embrace the Adventure and Be a Cereal Entrepreneur. It states that the code of ethics applies to every employee, officer, and director at Airbnb as well as its subsidiaries. The main components of their code of ethics are titled as such:

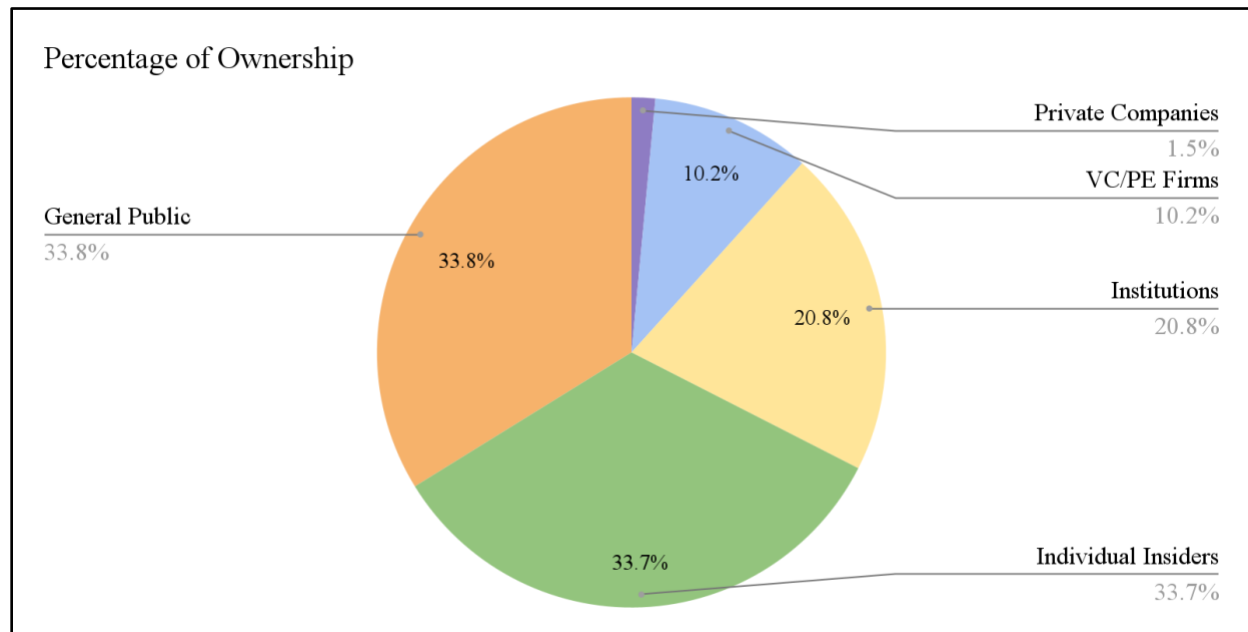
- Belonging is Everyone’s Responsibility
- Respectful Relationships
- Safety and Security

Their first pillar espouses that maintaining a code of ethics is the responsibility of each individual within the company, but they also have ethics advisors to provide support. Their second point emphasizes the importance of diversity and inclusion, outlines the expected accommodations for those with mental or physical differences, and their policies on harassment and bullying. As a company dealing heavily in the technology environment, it’s apt that the final main component of the code outlines the importance of personal privacy and document confidentiality. It also discusses workplace violence prevention and monitoring as well as details policies for topics such as physical security of personnel and hosts, investments and insider trading, and political contributions.

*Stockholder Ownership*

Airbnb’s largest single stockholder is one of its founders, Joseph Gebbia, with 11% of the outstanding shares. It’s interesting to note that the second and third-largest shareholders are Brian Chesky and Nathan Blecharzyk, the firm’s two other top founders. As referenced in the chart, employees of the company (or individual insiders) hold a little over 1/3 of the company’s outstanding shares. More than half of these shares are owned by 7 shareholders within the company, however. Institutions hold 20.8%, with Vanguard and Fidelity leading the ranking. The other significant portion of ownership is attributed to the general public, holding 33.8% of the shares.

Top 10 Owners of Airbnb Inc		
Stockholder	Stake	Shares owned
The Vanguard Group, Inc.	4.95%	19,748,498
Fidelity Management & Research Co...	4.49%	17,928,544
Capital Research & Management Co....	4.18%	16,671,723
Jennison Associates LLC	3.58%	14,280,645
Polen Capital Management LLC	3.21%	12,811,398
BlackRock Fund Advisors	2.69%	10,718,841
Wellington Management Co. LLP	2.61%	10,419,421
Capital Research & Management Co....	1.94%	7,734,279
SSgA Funds Management, Inc.	1.83%	7,315,127
Artisan Partners LP	1.45%	5,777,034



### **Recent Proxy Statement**

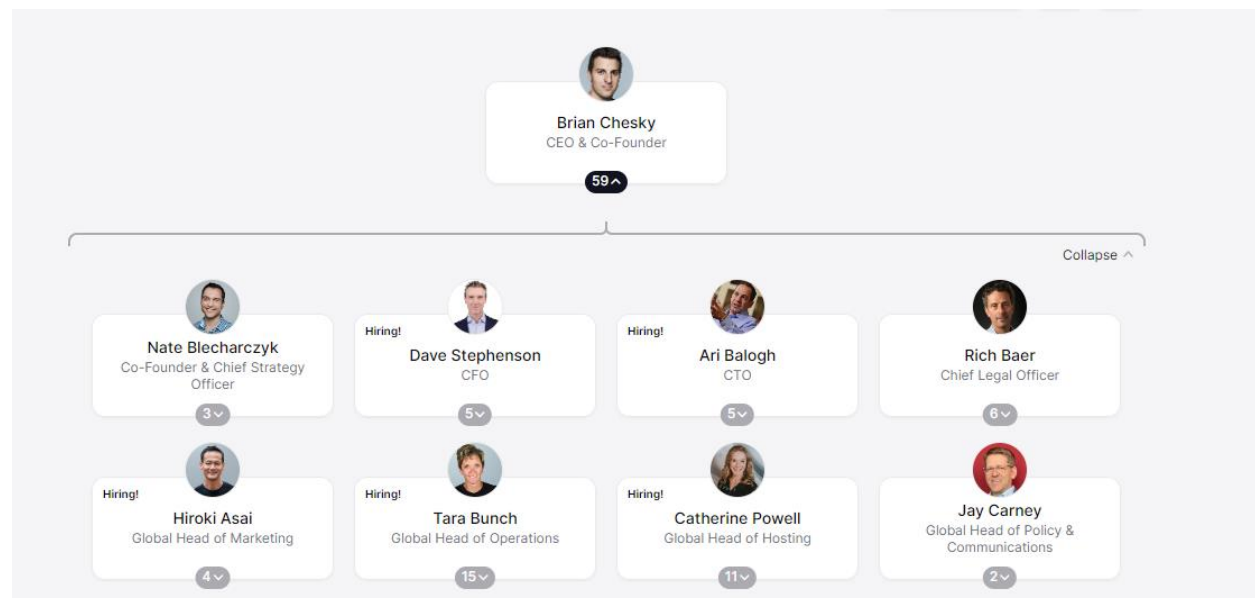
In April of 2022, the shareholders voted on 3 issues:

- Election of Amrita Ahuja, Joseph Gebbia and Jeffrey Jordan as Class II Directors to serve until the 2025 Annual Meeting of Stockholders
- Ratify PricewaterhouseCoopers LLP as their public accounting firm for the year ended December 31, 2022
- Approval of the executive officer compensation.

The election of the three individuals as Class II Directors for the company’s Board of Directors deals directly with firm governance, but they do not present any reason for concern as the results of the election demonstrated support for the candidates.

### **Component 10 - Organizational Structure and Controls**

At a high level, Airbnb runs a functional structure where employees are grouped into functional areas based on their domain expertise. Airbnb’s functional areas include strategy, finance, technology, legal, HR, hosting, operations, and marketing. Below is a diagram of Airbnb’s organizational structure (Airbnb, 2022).



In addition to running a functional structure, Airbnb is a blend between a mechanistic organization and an organic organization. It is components of an organic organization because it has lower levels of formalization and decentralized decision making. According to its recent 10K, Airbnb encourages employees to be bold, resourceful, and curious to learn more and make the company better, and the firm’s informality is shown from the company’s work from home policy. Airbnb also has parts of a mechanistic structure due to its high degree of specialization from its functional structure. Each employee specializes in a functional area such as operations, finance, legal, etc.

Brian Chesky tweets highlighting work from home policy:

1. You can work from home or the office—whatever works best for you.
2. You can move anywhere in the country, like from San Francisco to Nashville, and your compensation won't change.
3. You have the flexibility to live and work in 170 countries for up to 90 days a year in each location.
4. We'll meet up regularly for team gatherings. Most employees will connect in person every quarter for about a week at a time (some more frequently).

Airbnb's functional structure works well with it having a narrow focus in terms of product offerings (~99% of revenue from main business line). Each employee develops deep domain expertise and is supposed to be highly productive in their function. Also, functional structures lend themselves to having relatively flat communication lines within each department. A flat structure fits Airbnb's innovative culture well. Ideas can get spread more easily across a department and the CEO is more of a guide than a dictator for the firm.

There are a few downsides to Airbnb's functional structure. One downside to Airbnb's functional structure is that it has a large geographic footprint, which is not ideal for a functional structure. Functional areas such as finance or legal may be different depending on each country and not having functional teams specific to each country can hurt the firm. Secondly, effective communication across departments is probably lacking due to each department being largely siloed. For example, Airbnb's marketing team likely does not know what is coming down the pipeline from Airbnb's R&D team.

Overall, Airbnb's functional structure is appropriate for the firm due to its differentiation strategy. Airbnb is mostly an organic structure that prides itself on being flexible. Also, it has core competencies in R&D, innovation, and marketing.

Airbnb's board of directors is made up of nine members, with the Chairman being CEO Brian Chesky. The board consists of five males, four females, and five independent members, giving the board a diverse background. Structurally, the board is divided into three classes, with each class having a staggered three-year term. The staggered three year term approach allows for governance consistency even when a new class of directors are elected. Participation wise, directors are expected to make 75% of Airbnb's board meetings, and in 2021 the board met six times. Not having to make 100% of meetings is reflective of Airbnb's flexibility from its organic organization style. Members also participate in Airbnb's various boards, which include an audit, risk, and compliance committee, a leadership committee, a corporate governance committee, and a stakeholder committee. These committees largely mirror Airbnb's functional structure as board members participate in the committees they are best suited for and have expertise in. Overall, Airbnb's board is largely aligned with the firm's organizational structure. The board and the company itself is split up into functional areas with cultures of innovation and flexibility. Below are Airbnb's board members (Airbnb, 2022).

Name	Age	Class	Independent	Audit, Risk and Compliance Committee	Leadership Development, Belonging and Compensation Committee	Nominating and Corporate Governance Committee	Stakeholder Committee
Brian Chesky	40	I					Member
Angela Ahrendts	61	I	Yes		Chair		Member
Kenneth Chenault	70	I	Yes		Member	Member	
Amrita Ahuja	42	II	Yes	Member			
Joseph Gebbia	40	II					Member
Jeffrey Jordan	63	II	Yes	Member		Chair	
Nathan Blecharczyk	38	III					Member
Belinda Johnson	55	III					Chair
Alfred Lin	49	III	Yes	Chair	Member		

Airbnb utilizes a strategic control-and-reward system to monitor and improve the firm's performance. To maintain a working control-and-reward system, the firm uses input and output controls. For input controls, Airbnb performs written strategic planning, annual budgeting, and has a codified Code of Ethics. These explicit documents guide management and employees in how the company is supposed to be run and what the goals are for the firm in the short term and long term. Even before Airbnb sets out in product launches, geographic expansion, or its other value creating activities, the firm sets out guidelines for each year.

Airbnb also uses output controls to ensure its input controls are being followed. The firm's primary output control include equity based compensation and cash bonus plans for management. The company's cash bonus plans for management are based on six operational priorities that the board sets at the beginning of the year. In 2021, priorities include marketing, hosting, guest experiences, operations, technology, and foundation. The six priorities are listed out in detail below, along with their weighting in management's cash bonuses.

- Marketing - marketing efficiency and direct traffic to platform (20%)
- Hosting - new hosts and launch of a new host landing page (20%)
- Guest Experience - delivery of improvements to the search and guest booking experience (15%)
- Operations - improved community support (15%)
- Technology - improved platform reliability (15%)
- Foundation - fixed cost management and diversity of team (15%)

It is important to note that management's cash bonuses are mainly not tied to financial results, they are tied to the operations that go behind the company's financial results. This makes management focus more long term performance than short term financial results. Management's cash bonuses are paid as a percentage of base salaries, ranging anywhere from 60% to 75%.

While cash bonuses are paid based on operational improvements, equity based compensation is based largely on financial results since its stock options only provide value to executives when the firm's stock price rises. Airbnb's management team receives 50% of its equity compensation in stock options and other half in RSUs. Cash bonuses and equity compensation is set by the board's leadership committee which benchmark's the firm's compensation structure against its peers. Peers the board used include Adobe, Doordash, eBay, Lyft, and Netflix (Airbnb, 2022).

Besides input and output controls, Airbnb utilizes KPIs or Key Performance Indicators to track year to year performance. Important KPIs for Airbnb include Adjusted EBITDA, gross booking value, free cash

flow, and nights and experiences booked. Below are descriptions on each of these four KPIs (Airbnb, 2022).

- Adjusted EBITDA - net income adjusted for income taxes, interest expense, depreciation & amortization, and stock based compensation. Airbnb had \$1.59M of adjusted EBITDA in 2021
- Gross Booking Value - GBV represents the dollar value of bookings Airibnb had including host earnings, service fees, clearnings fees, and taxes. In 2021, GBV was \$46.9B.
- Free Cash Flow - FCF represents how much cash the company actually produced. It takes adjusted EBITDA and adjusts for investing and financing activities. In 2021 FCF was \$2.2B.
- Nights and Experiences Booked - A measure of the reach and scale of Airbnb's platform. It is important because nights booked drives Airbnb's economic engine. In 2021, Airbnb had ~300M nights and experiences booked.



## Appendix

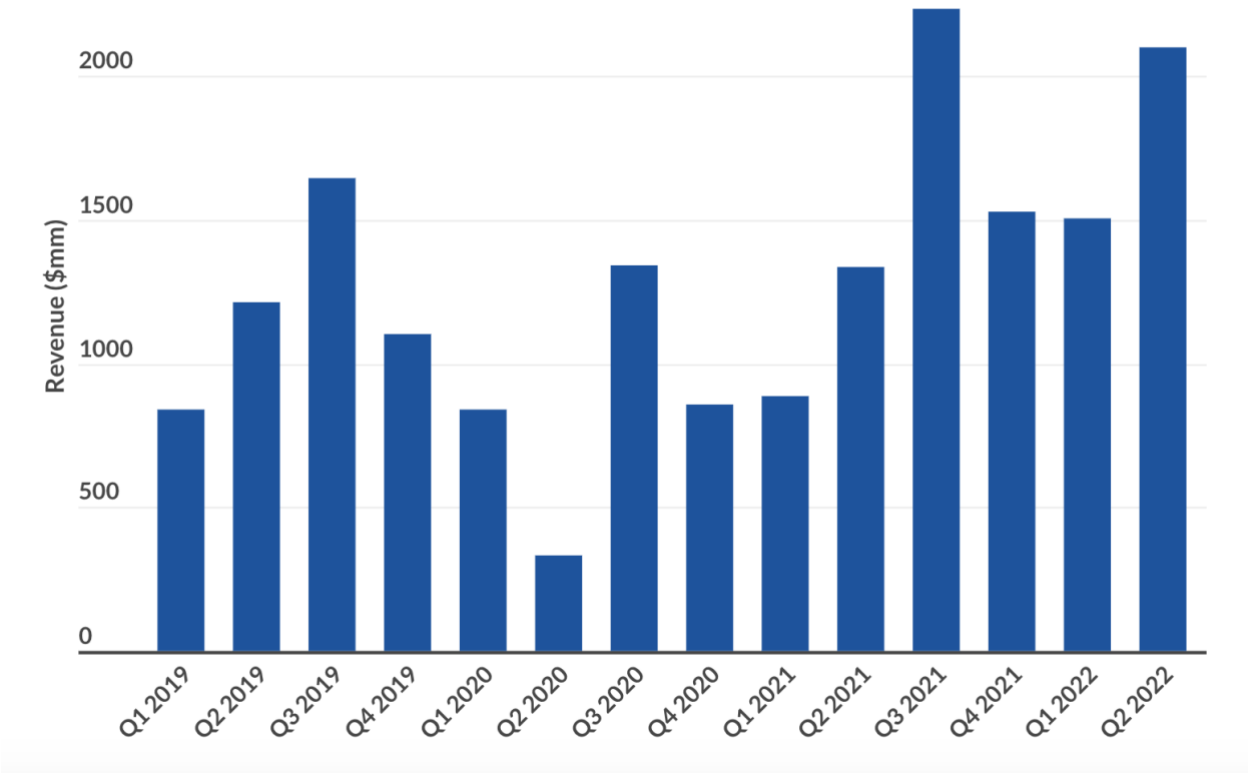
Table 1.1 - Airbnb PESTEL Analysis

Most Influential Trends	General Environment Segment	Opportunity or Threat
Increased awareness around Climate Change	Environmental	<b>Opportunity</b> – Airbnbs are more environmentally friendly than hotels. Hotels use a lot of energy to wash linens and towels, sometimes as often as after each night, and keep their lobby lights on 24/7. Airbnbs are more environmentally conscious as the guests will typically use their linens and towels repeatedly throughout the stay, and energy will not be expended keeping the building lit at all times. Airbnb’s blog posted a study that stated, “Traveling on Airbnb results in significant reduction in energy and water use, greenhouse gas emissions, and waste, and encourages more sustainable practices among both hosts and guests” (Airbnb, “New Study”).
Increased focus on experiences	Sociocultural	<b>Opportunity</b> - Social media apps such as TikTok and Instagram promote traveling and seeing new locations. Many social media influencers travel and post different locations people otherwise would not know about.
Traveling post-COVID	Sociocultural	<b>Opportunity</b> - Post the Covid-19 Pandemic, people are more focused on traveling and experiencing more now that they know what it's like to not be able to have those experiences. Travel spending was roughly at 2019 levels in July 2022 (Ristoff).
Work from Home/Hybrid	Sociocultural	<b>Opportunity</b> - Opportunity for people to travel more due to people having increased flexibility and potential time. People can work from their AirBnB locations if they work from home or work hybrid.
Guests' desire for more space and in-suite kitchens are anticipated to persist over the next five years.	Sociocultural	<b>Opportunity</b> – Because hotels usually have limited kitchen space, Airbnb can steal market share from hotels by targeting families or guests that want to be able to cook while traveling or vacationing. Airbnb even offers a specific category of search option called, “Chef Kitchens” for customers that are especially interested in cooking while traveling (Airbnb, 2022).
Housing Laws and Regulations	Legal	<b>Threat</b> – There are varying rental laws and regulations across states that Airbnb hosts need to consider. Many people who rent out their locations don’t follow proper housing laws. For example, in some states it is required that those renting their property must live on property, but there are people who purchase separate houses for Airbnb rental services which violates housing laws. Airbnb has already faced court proceedings in Florida, Barcelona, New York, Toronto, San Francisco and many more places because their hosts did not follow the housing laws and regulations in the respective places (Farooq).
Increased reliance on technology for booking and reviews (role of the	Technological	<b>Opportunity</b> – Airbnb allows hosts and tenants to interact and communicate directly via messaging and reviews. Users—both hosts and tenants— can create profiles which improves transparency and reliability for bookings.

internet in traveler accommodation)		Airbnb also relies on technology for the booking process, cancellation and payment verification systems, and reviews. The demand for flexible check-in and check-out has also increased recently, and the Airbnb app is very convenient for this and many times even offers contactless check-in.
Government Administration's views towards COVID and other potential diseases	Political	<b>Threat</b> – In some areas of the country, there have been higher COVID restrictions. This may decrease the amount of travel and poses a threat to Airbnbs in such locations. <b>Opportunity</b> – On the other hand, many areas of the country have been lifting their COVID restrictions and this may encourage travel to these regions.
Rising interest rates and looming recession	Economic	<b>Threat</b> – Because individuals feel worried about the economic future of our country, spending on non-necessities has been decreasing. Traveling is many times a non-necessity and could be one of the first expenses people cut from their budgets.

Chart 2.1 - Airbnb Quarterly Revenue Trend

Airbnb quarterly revenue 2019 to 2022 (\$mm)



### Chart 3.1 - Airbnb Profit Trends

Airbnb Net Income/Loss Over Time

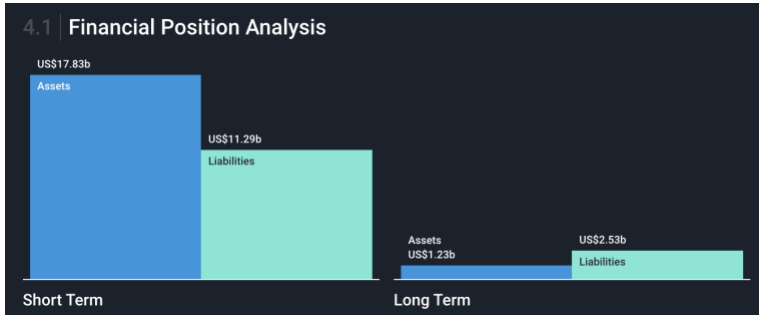
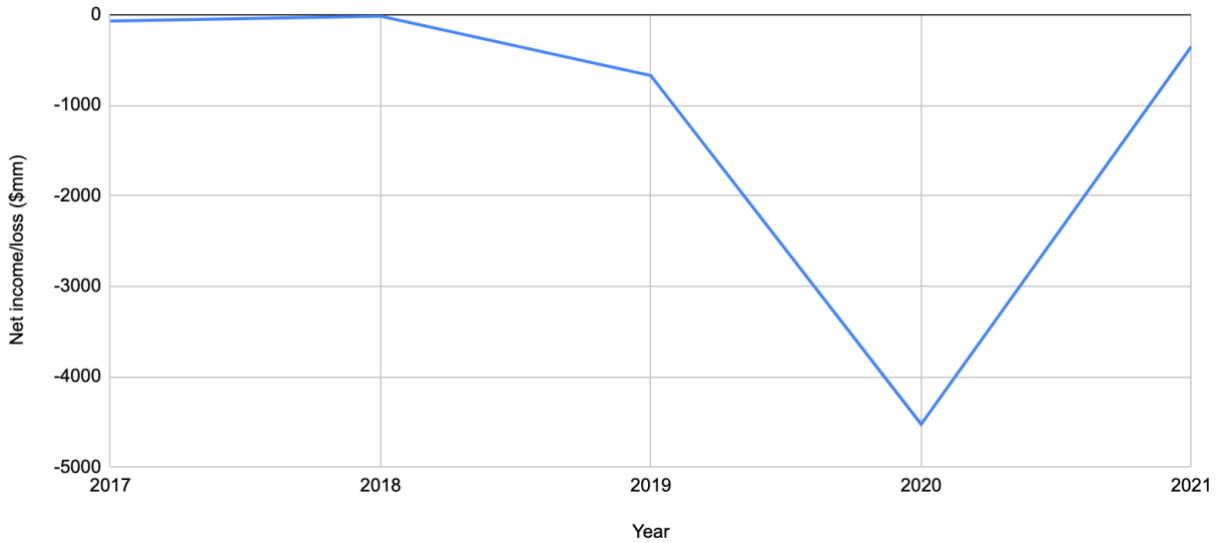
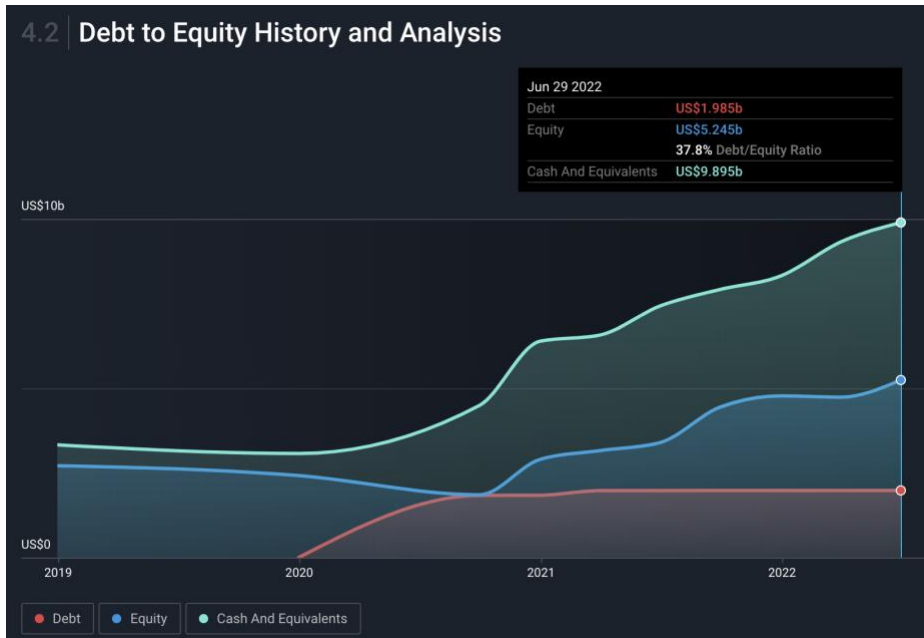


Chart 4.1 - Financial Position Analysis

Chart 4.2 - Debt to Equity History and Analysis



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