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Airbnb Business Model(Case Study) How Airbnb Works And

Earns Money?

2 Minute Summary

If you are a traveller then you must have listened to the name of Airbnb. Started Brain Cheskey and Joe Gebbia in 2008. Airbnb has revolutionized the way people travel by focusing on building a community and not just a mere distribution platform. Airbnb is a marketplace where travellers get to stay at the property listed on the site by the local hosts. Airbnb is a community built on sharing. It was started by two friends when they faced difficulty in paying the massive rent and had a spare living kind of a room. Airbnb is based on an aggregator business model. Airbnb take-offs flat 10% commission from hosts for every booking done through the platform. Usually, the payment processing fees are 2% that here is 3. So, an additional 1% is also levied that the host pays. Airbnb charges an amount up to 20% of the booking total that is set as a service fee by

> Airbnb for travellers for every confirmed booking. This fee is non-refundable. Airbnb business model also includes business ready homes that fulfil certain requirements for home type, amenities, check-in, reviews, responsiveness, and host commitment. Airbnb also provides services like for which it charges a flat 20% commission from the person who provides it.

Are you a traveller or have a spare room?

Then you must have heard of Airbnb and how you can rent a room at an affordable price.

Have you ever wondered how Airbnb Business Model works?

Why is Airbnb so successful? How much revenue does Airbnb make?

Started by Brian Chesky and Joe Gebbia in 2008, Airbnb has taken the hospitality industry by storm.

Airbnb has revolutionized the way people travel by focusing on building a community and not just a mere distribution platform. After reading this article you'll get to know everything about Airbnb's business model.

What's in it for me?

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What is Airbnb?

Airbnb is a marketplace where travellers get to stay at the property listed on the site by the local hosts. A person who has a spare room can list his property on the website and the person who is travelling to that particular location can book it and get to have a unique experience offered by the host.

Airbnb is a community built on sharing. It was started by two friends when they faced difficulty in paying the massive rent and had a spare living kind of a room. They got a mattress and started marketing it offline as a space for rent. Later they started offering breakfast with that as well.

They got 800 cereal boxes which they sold for around 40$ each during the presidential campaign. They earned so much money and reinvested back into the business.

Airbnb is now operational in more than 190 countries and has a presence in 34000 plus cities.

It has turned into a huge business now with 150 million-plus users and 1.9 million-plus listings that the user can book at any given time.

Airbnb business model

Airbnb is based on an aggregator business model. Aggregator Business Model is a network model where the company collects the data about a specific good/service providers, make the providers their partners, and sell their services under its brand.

Since the aggregator is a brand, it has to provide services which have uniform quality and price. This is done by signing up a contract with the partners. You can understand it as an asset-light model where you earn a commission for the services you provide without owning any inventory.

If we talk about the conventional model where you had to purchase a hotel to get started with bookings, they have turned the game around and connected the demand and supply. This is one of the reasons for its rapid growth.

People having vacant space at their home and willing to earn some extra money can list their rooms on the website and earn some extra bucks. Also, the key differentiator is they sell experience and not just space.

Many travellers wanna feel like home once they go out to travel and explore different countries. The travellers get a local like feel and also feels light on the pocket as compared to hotels.

Airbnb also has personal profiles and rating/reviewing systems that help the travellers make an informed decision about the hosts and what is on offer. Hosts too can decide and have a choice about whom they have to rent out their space. These help to build trust and reputation in the community.

Besides the travellers and hosts, the Airbnb business model also includes a huge network of freelance photographers in all major cities of the world. They visit a property and get high-definition photographs of the property.

These high-definition photographs improve the click-rate and help in getting more responses. Airbnb pays these photographers directly.

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Airbnb Distribution Strategy

Airbnb has changed the way users searching for accommodations online. It is the largest experience host in the world. The most important thing about the distribution strategy of Airbnb is that it keeps the cost as low as possible by avoiding to outsource their work.

Airbnb helps to create the brand value of its hosts so that the guests can find them easily if they want to visit again. The company took many strategic decisions to spread its distribution network all over the world. Let’s look upon the events to know how Airbnb used the distribution strategy to become the largest accommodation provider.

- The company started Bed and Breakfast services for the travellers in the US in 2008 through its website airbedandbreakfast.com which became airbnb.com in the next year.
- The headquarter of Airbnb was in San Francisco, California. To list more properties and expand the chain of hosts, the company opened its first international office in London in 2011.
- In May 2011, Airbnb established its first European office in Hamburg, Germany by acquiring its equivalent rival Accoleo. This was the indication that the company is up for global expansion and creating a distribution network.
- In October 2011, the company opened its second international office in London and till 2012, Airbnb had eight international offices including Paris, Milan, Barcelona, Moscow, Sao Paulo, and Copenhagen.
- In the same year, the founder and CEO of Airbnb, Brian Chesky announced that he will focus to expand his distribution network in Australia and opened an

office in Sydney as he saw an opportunity of rapid growth there.

- With this distribution strategy, the company completed 10 million bookings on its platform and in 2013, it successfully listed 250,000 properties.
- In 2014, the company partnered with home-cleansing services Homejoy and Handybook for the Airbnb hosts to clean their homes at discounted prices. This move brought exponential growth in the listing of new hosts on the platform and the guests also got standardised and well-managed homes.
- In 2015, the company announced “Business Travel Ready” badge for business customers. It attracted over 250 businesses including Google, Salesforce, SoundCloud and Vox Media to use the platform.
- In February 2018, the company announced its new service Airbnb Plus which offers verified homes with value-added amenities. This allowed people to list their premium properties and provide a comfortable experience to the visitors who look for a luxury rental property.

- Airbnb partnered with SiteMinder as a third-party distribution partner. With this partnership, the company officially allowed to list the hotels and other accommodation properties in the portfolio of Siteminder as Airbnb host.

  Its channel manager displays the real-time report of the booking trends and room rates for a better user experience.

Airbnb offers a lower commission for the boutique hotels to make its distribution channel stronger and getting an edge over its competitors. The other platforms charge around 10-15% as commission whereas Airbnb takes only 3-5% from the hosts.

The company has a large number of software partners to make the host and customer experience better. As of 2019, the company made its website available in 62 languages to make it relevant to a large number of users.

Airbnb made many acquisitions over the journey to expand its network of listed properties in the different cities of various countries and improve the host and guest experience. The company hired many photographers to capture and upload high-quality attractive photos and inspection members to ensure the quality of the properties listing on the platform.

Apart from homes and apartments on rent, now the company also lists boutique hotels, heritage hotels, lodges, resorts, etc. It has crossed over 5.6 million listings worldwide till the end of 2020. Also, the company served over 800 million guests on its platform.

How Airbnb Works?

Airbnb is a platform that connects travellers to the localhost. If you have a spare room in your house, you can list that on Airbnb's property and earn for every booking.

It is a kind of opportunity for both the travellers and the host as travellers to get live cheaply as compared to hotels and also get a feeling of the homestay. On the other hand, hosts earn money for the property they provide.

The host can provide additional services like breakfast, tour guide, pet-friendly environment, etc for which they can decide the amount they want to rent.

The rating and review system builds trust and if you read the reviews for some properties, travellers make a long term connection with the host.

Airbnb vs Uber vs Oyo Rooms:

Airbnb, Uber and Oyo Rooms all work on the aggregator based model. Oyo Rooms has still shifted significantly and have started to operate the full buildings independently. Also, they have expanded to co-living and co-working spaces.

Uber has simplified travelling from one place to another. Its business model is such that it acts as a middleman between the drivers and the riders guaranteeing a standardized level of service.

However, this is different from the Airbnb business model that thrives on discoverability. The level of service is not consistent. The travellers are free to choose from the listings that are there on Airbnb's website after going through its reviews.

Uber too has ratings and reviews for both riders and drivers. It doesn't give the facility to the user to choose a driver they want to ride with. Also, the reviews on Uber, if you would see are not as elaborate as those on Airbnb.

The most Uber can do is suspend a driver or rider if his/her ratings are too low. Uber pays its driver partners through a fixed rate of commission for every ride.

Oyo Rooms business model is based on quality control or standardization where they ensure a certain level of uniformity in their services. The case with Oyo Rooms is that a person books the room with the brand and not the individual hotel.

With Airbnb, the case is opposite, a room is booked through the website with the host providing it. Just like Uber, Oyo ensures a certain level of service. As I told above, Oyo has now started to lease out the full property and run the entire building under its brand name which gives it the access of day to day operations.

Airbnb has no such control over the quality of the homestay. The difference is also, Airbnb earns through commissions mainly.

How Airbnb Earns?

As we talked about Airbnb being run on an aggregator based model, its main income comes from the commission on every booking made. The property owner can list their properties for free.

The booking and monetary transactions are carried out on the Airbnb platform. The company mainly earns from these transactions in the following ways-

1. **From the hosts/owner of the property**

Airbnb take-offs flat 10% commission from hosts for every booking done through the platform. Usually, the payment processing fees are 2% that here is 3. So, an additional 1% is also levied that the host pays.

2. From the Travelers/Guests

Airbnb charges an amount up to 20% of the booking total that is set as a service fee by Airbnb for travellers for every confirmed booking. This fee is non-refundable

3.Airbnbmag

Airbnbmag is a magazine product that the company has added. The thinking behind it is to make the travellers feel that they belong to the place they visit. This 15 dollar magazine is a result of the partnership between Airbnb and Hearst. The motive is also to help the traveller discover the place through the locals' eye.

4. Business Travel

Airbnb business model also includes business ready homes that fulfil certain requirements for home type, amenities, check-in, reviews, responsiveness, and host commitment. This feature is designed especially for travel managers of the companies to provide better transparency and more accurate reporting for their company.

5. Airbnb Services

Airbnb also provides services like for which it charges a flat 20% commission from the person who provides it.

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Marketing Strategy of Airbnb

Marketing is an essential part of any business and below we have discussed some strategies adopted by Airbnb to get their product out there to more and more people.

1. Influencer Marketing

Influencer marketing means promoting your product/service through social media influencers who have the audience. It could be YouTubers, Social Media celebrities, bloggers and even movies stars.

In 2015, Airbnb hosted a ‘floating house’ publicity stunt on the Thames River in London with a variety of related events including a #FloatingHouseParty where attendees were encouraged to live stream, take pictures and splash the night all over social media.

The resultant coverage turned out to be massive. 340 press pieces in the UK alone, which translated into over 70,000-page hits, 10,000 new users, and more than 200 million social

impressions!
Airbnb also leverages the impact of celebrity stays.

https://www.youtube.com/watch?v=vvQtUH03bHQ

Since then, Airbnb has partnered with several celebrities – picking up the tab for their stay in