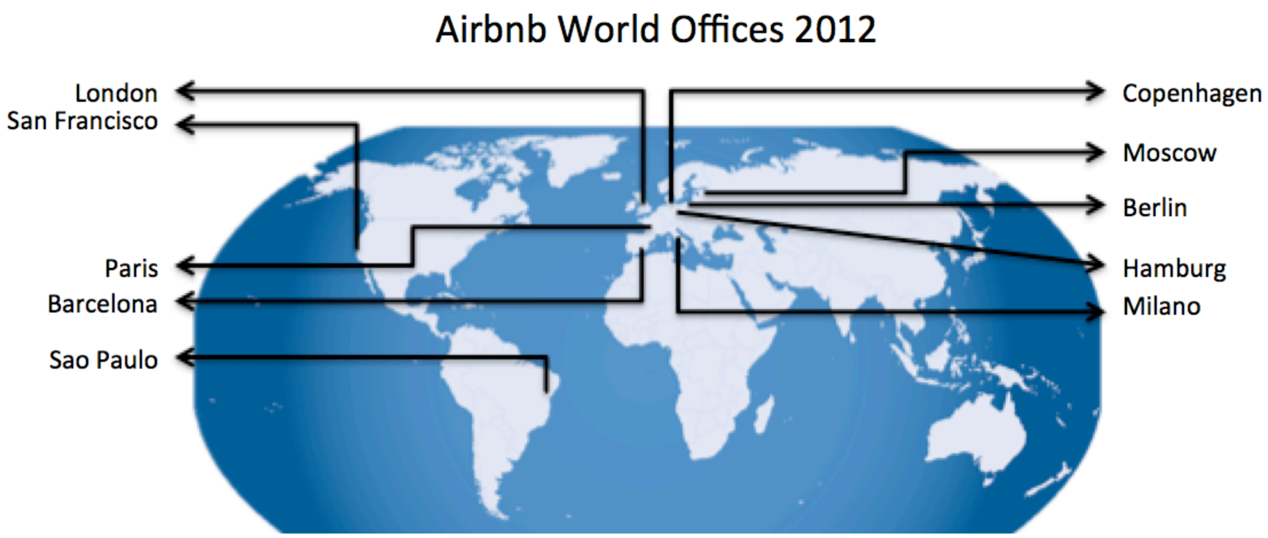
4. Case Airbnb: Disrupting the hotel industry

In the following, we will investigate the platform-based Born Global company Airbnb in depth. This we will do to get a better understanding of a successful Born Global company in the sharing economy that have proven capable of scaling into foreign markets at a speed never seen by other types of non platform-based Born Global companies in the sharing economy before. As we will get a better overall understanding of the company and the factors that have influenced their approach to internationalization, we will be better suited to answering our research question. In order for us to research Airbnb thoroughly, we will in the following conduct a case study, which will enable us to explore all areas of the company. The structure of the case study will take its foundation in our finding of the six parameters in the literature review. The six parameters being; the founders, the product, the organization, the environment, the strategy and lastly their approach to market entry. By structuring the case study into these six parameters, we will be sure that our findings will be easy to relate to the literature, and ensure that we address all the most important parts of a Born Global company.

4.1 History of Airbnb

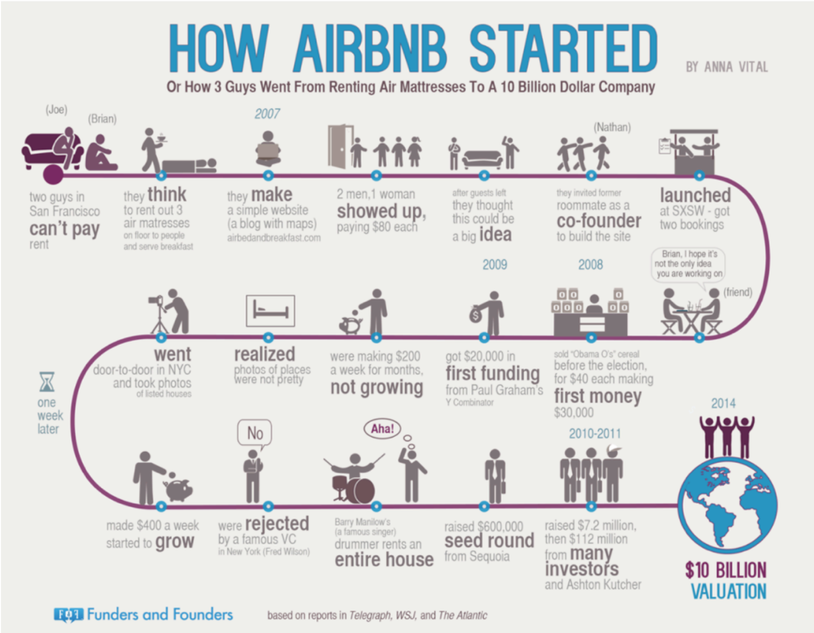


Created from Airbnb.com[1]

Figure 3

In 2007, Brian Chesky and Joe Gebbia decided that they wanted to start their own company. The only problem was, that at this point they did not really have a business idea. Nevertheless, they moved to San Francisco, only to face another problem; as they could not pay the rent. At the same time, there was a big design conference in the city, making all hotel rooms in San Francisco fully booked. As Brian and Joe could not pay their rent, they thought that maybe some of the conference visitors, that were unable to book a hotel room, would want to rent an air mattress. They launched a very simple blog with a map, and three conference visitors rented an air mattress in their apartment. From this, they earned 80$ per visitor, enabling them to pay the rent (techcrunch.com).

This simple idea of renting out air mattresses, is what would later turn into a billion dollar Born Global company, with operations in 180+ countries. Along the way, they took on board Nathan Blecharczyk as co-founder, an old roommate of theirs, that would later become the CTO of Airbnb. In 2008, they experienced a lack of liquidity to continue their operations, therefore they started selling Obama and McCain branded cereal boxes, during the presidential campaign, this secured them 30.000$, which later in 2009 would be topped with a real funding of 20.000$ from the investors at Y Combinator (ycombinator.com), and later the same year with $600.000 from Sequoia Capital (sequoiacap.com). The concept was proven and Airbnb began to grow, so in 2010 their first million-dollar funding came, with $7.2million in a Series A funding lead by Greylock Partners (greylock.com) and Sequoia Capital. The story about Airbnb, is considered a true start-up story of hard working entrepreneurs with the spirit and vision to succeed. While building the company to where it is today, Brian spent six months living in locations he found and rented on Airbnb, providing him with first hand experience on how to shape their product. In the beginning of 2011 Airbnb reached an astonishing total of 1 million booked nights, and by July 2011, in a series B round, Airbnb raised another million-dollar funding of $112million, pushing their valuation over $1billion. Airbnb was now a unicorn, planning to expand their operations to every city in the world (blogs.wsj.com). Since then, Airbnb has acquired German based competitor Accoleo, enabling them to aggressively enter the German market (techcrunch.com$_3$). Airbnb has now reached a total of $2.39 billion in funding, from 32 investors spread throughout 8 rounds (crunchbase.com).



fundersandfounders.com

Figure 4

4.2 What is Airbnb

Airbnb is an online two sided, peer to peer marketplace, that allows users to register as a host to rent out their own home or other accommodation type, which can then be found and rented by other Airbnb users looking for accommodation during a trip. It is very easy to become a host on Airbnb, the only thing needed is basically to upload a few pictures, some information about the place and set a price, all of this at zero cost. The moment a booking takes place; Airbnb will charge the host a service fee of 3% (airbnb.dk$_2$) of the amount listed. In order for users to request a booking to a host, the only thing needed is to create a profile with personal information, as well as credit card details. When the profile is then created, it is possible for the user to see contact information about the host and thereby being able to contact the host. The user sends a request to a host for a period of time that the user wants to rent the hosts place. If the host then concompanies the request, a match will be made between the two. When this match is made, the user will be charged the amount for the accommodation along with an additional 6-12% transaction fee (airbnb.dk$_3$).

4.3 Airbnb Business Model

Airbnb is based on a Platform Business Model, meaning that they basically facilitate the exchange of a service between people renting out space, i.e. the supply side, and the demand side which is customers looking to rent a space. This Business Model, enables Airbnb to have very few employees compared to the amount of spaces they are able to have listed on their platform. Operating the platform on the concept of Freemium, where users can create an account for free, facilitates a scenario where supply and demand can increase at a pace that would not be possible, had there been any upfront costs to sign up. This combination of a platform with zero sign up costs, enables Airbnb to scale at a rate most companies can not keep up with, at zero marginal cost. Linear business models, used by traditional Hotel companies, have a much larger investment requirement in order to scale into new markets, or simply to increase demand as new hotels need to be built to create supply. This is a problem Airbnb never faces with their current Business Model, as private individuals are what create their supply. A last noteworthy notice, is that Airbnb enables private individuals to either earn some extra money, or save money, which in our world today are two factors most people take very seriously, thereby supporting organic growth, through word of mouth.

4.4 The Founders

"Cofounders are for a startup what location is for real estate. You can change anything about a house except where it is. In a startup you can change your idea easily, but changing your cofounders is hard. And the success of a startup is almost always a function of its founders."

- Paul Graham (paulgraham.com)

As co-founder of Y-Combinator, Paul Graham was the first person to invest in Airbnb, with $20.000, as previously mentioned. When looking at the quote above, and combining it with the risk Paul Graham took by investing in Airbnb in its early days, it is fair to say that there is clearly something special about the founding team of Airbnb. In the following, we will explore each of the founders and investigate what made this team so successful.

4.4.1 Brian Chesky

Born on August 29, 1981, Brian went to Rhode Island School of Design (RISD) studying Industrial Design. While attending RISD, Brian and two friends were in charge of the local NADS hockey team, a team facing being shut down (airbnb.dk[4]). Brian as the captain, together with his friends decided they would try to turn the team into a real brand, so they came up with the RISD mascot, which proved to be very successful. Though this happened in his early years, before launching Airbnb, it shows that Brian is not afraid to take on risky projects and work hard to make them a success. Though he at this point in time had no international experience, his proactivity and perception of risk appears to – some extend as Brian at this point is not internationally oriented – to align with the Born Global literature. For instance, in 2007 Acedo found that Born Global founders with an international orientation would create a higher level of proactivity and simultaneously decrease the perception of risk in internationalization. Brian is very creative in thinking of ways to succeed, in this case using a mascot to spark the interest for the team. Relating his creativity to Airbnb, he and Joe started selling election branded cereal to fund the Airbnb project. When Brian first moved to San Francisco together with Joe, he made a very risky move as he didn't have a lot of money to live off, nor a specific plan for the future, all he knew was that he wanted to become an entrepreneur. Clearly Brian showed clear signs of a low perception of risk, even before launching Airbnb, but at this point in time, Brian did not have any international experience, though most literature – such as Hedlund and Kverneland in 1985, as well as Ganitsky in 1989 – mentions the importance of internationally experienced founders and the resources they bring.

As we know, after Airbnb was launched, Brian spent months living in various homes he rented through the Airbnb platform. This is very consistent with what literature has shown us, as Born Global companies tend to aggressively seek learning, which is exactly what Brian did by living this way. He did not have much knowledge about the industry and its customers, nor any international experience, but by actively living for months like the customers they were building the platform for, he began to better understand their needs. Enabling the founding team to proactively build the company from a customer's point of view (techcrunch.com[1]).

Throughout the literature, which we have already mentioned, scholars agree that founders in Born Global companies, very often had international experience prior to launching a

Born Global company. As Brian Chesky is one of the founders and also the CEO, in a successful multi billion dollar Born Global company, it would be expected that he was already an internationally experienced professional before launching Airbnb, though that is not the case. As Brian was the most outgoing of the founders, he was given the role as CEO of the company. This forced him to quickly learn how to lead and manage the team in the early days, as well as when it started growing into hundreds and eventually thousands of employees. Brian took a very smart approach in this, proving how good his social skills are. Brian very quickly realized, that there were two ways to learn, he could either read a lot of material on the matter, or as he says; "going to the source". Over and over again, Brian has approached leading executives from various industries, asking for advice whenever he needed it. By doing so, Brian has had an incredible learning curve, while building a very strong network of advisers. A network of some of the brightest business minds ever to have lived. Brian has, among others, gotten priceless advice from executives such as; COO of Facebook Sheryl Sandberg, Chief Design Officer of Apple Jony Ive, CEO of Disney Bob Iger, the former director of CIA George Tenet as well as worlds most well known investor Warren Buffet. This is only a fraction of the people Brian has reached out to, but it clearly shows his ability as a networker, and his will to proactively engage in learning (fortune.com). If we take a look at Brian Chesky from a Resource-based View, he might not posses the general international resources needed according to literature, but he surely posseses several of the resources a successful Born Global founder normally possesses. He has a low perception of risk and a high proactivity and a will to learn what he does not already know. In relation to one of the few Resource-based View studies made on Born Global companies, Rialp and Rialp said in 2006 that human resources in general have a huge impact on the success of Born Global companies, not necessarily only international experience.

4.4.2 Joe Gebbia

Joe Gebbia was born on August 21, 1981. He attended the Rhode Island School of Design in Providence, Rhode Island. He graduated with a Bachelors degree of Fine arts in Graphic Design and Industrial Design (airbnb.dk$_4$). During his time at Rhode Island School of Design he founded the basketball team and was the student body president. He also co-founded a green design website during his time at RISD (www.bloomberg.com). Joe also took business courses at Brown University and MIT. Joe had a passion and willingness to succeed as an entrepreneur. Joe had said to Brian under their time at RISD that one day they would start a company together. This can be related to the attitude Joe had towards becoming an entrepreneur. After Brian moved to San Francisco both Joe and Brian quit their jobs to risk it all chasing the dream of becoming entrepreneurs. They were both willing to take on the risk it takes when starting from scratch and pursuing their dreams. Just like we saw with Brian, Joes perception of risk aligns with the literature, even though he neither, has any international experience at this point in time. International experience however, should be considered as the most important factor for a founder.

After graduating from RISD Joe moved to San Francisco and started working for Chronicle Books where he gained knowledge and first hand experience on how a design driven company is run. Because of this experience Joe is Chief Product Officer within the Airbnb Corporation and benefits from his past experience. According to the Resourced Based View, this perfectly matches the research done by Rialp and Rialp in 2007, as the human resource of Joe Gebbia has a positive impact on Airbnb even though Joe had no international experience.

After starting Airbnb with Brian and Nathan by renting out their living room floor and airbeds, Joe and the 2 others went out seeking information from their users trying to se how to improve their business model and concepts. This coincides with literature on founders wanting to retain market knowledge to further develop their internal human resources and the importance of networking. The literature also states the importance of understanding their markets and that market knowledge can become key drivers for the companies future operations.

4.4.3 Nathan Blecharczyk

Born in June 1983, Nathan is the third of three founders and the CTO of Airbnb. Already as a young child, Nathan was very interested in coding. At the age of 12 he started writing web based codes, and two years later when he was 14 someone discovered his work, and offered him $1.000 to create something similar (airbnb.dk$_4$). Nathan was introduced to more people with similar needs throughout the world, so during high school, Nathan founded an online marketing company, and started creating software products that would facilitate online marketing. Despite his young age, Nathan had customers in 20 countries, providing him with valuable international experience on how his coding could easily be scaled and used in countries around the world. In 2005 he got his Bachelors degree in Computer Science from Harvard, and between getting his bachelors degree and joining Airbnb as co-founder, he held various positions at leading international software companies (www.wealthx.com). In relation to the existing literature on Born Global companies, Nathan has to some extent the international experience that among others is mentioned by Rialp, Rialp and Knight in 2005 as a factor to drive companies to early internationalization. It should be noted though, that the international experience Nathan has acquired was mostly related to product development, and not international operations.

With Nathan, the founding team of Airbnb had a member that had previously built software for the international market. A very valuable asset, that the others did not have, and an asset that would prove to be of the utmost importance. As the only engineer of the three founders, Nathan is in charge of the companies technical strategy. This position required for him to think many steps into the future when developing the software, a task Nathan was well suited for, taking into account his previous international experience (airbnb.dk$_4$). A very good example, of how the company has greatly benefitted from his experience, is the way that he has built the backbone of the software in a very modular way, enabling Airbnb to easily scale and change modules of the software as the company evolves (techcrunch.com$_2$). Nathan clearly brings a set of intangible resources to the team, that enables them to develop a product capable to scale internationally. Though his previous international experience was restricted to that of coding for an international market, and not developing a product that would strategically suit all markets, we believe that he to some extend has had an impact on the vision and strategy of the founders to become an international venture. The vision and strategy of the founders is mentioned by Knight and Cavusgil back in 1996. In this research they do not specifically mention international experience, but more the vision and strategy.

4.4.4 Relationship

What first strikes us when looking at the three founders of Airbnb, is how they knew each other prior to launching Airbnb. Brian and Joe both went to Rhode Island School of Design, where they both had interests within the entrepreneurial segment. Joe is the big thinker and idea maker behind the group. After graduating from RISD Joe had said to Brian that one day they would start a company together. Joe moved to San Francisco and Brian moved to Los Angeles working for their respective employers. Joe was living in an apartment with two roommates where one of them was Nathan. Nathan and the other roommate moved out and Joe invited Brian to move to San

Francisco so they could brainstorm and work towards creating company together. At this point in time they were short on cash with one roommate missing to cover the apartment expenses. Joe had seen that there was a big design conference in San Francisco and that all the hotels were booked. Joe got the idea to rent out airbeds to participants so they could have a place to stay. Together Joe and Brian could earn money for their rent. This idea was just meant to be a one-time thing.

Shortly after Joe invited Nathan to come join him and Brian in the pursuit of creating a company together. The intention was not from the start to continue with the idea of renting out space and airbeds. First after creating many new ideas and rejecting them they decided to continue working on the idea created by airbed and breakfast.

When taking the literature into consideration, several skills are needed in a founding team for it to become a success. Looking at the Airbnb founding team, it is by many considered as an odd team when it comes to the tech world, as only one of them was an engineer and the others had a background in design. But as we dig deeper into the three founders, their intangible resources and their backgrounds, it becomes clear to us that they together posses a great diversity of resources, and thereby complement each other very well. Simultaneously, they all have an aspiring dream to become entrepreneurs, and in pursuing this dream, they aggressively seek to learn the knowledge and skills they need to succeed. This is very interesting, because even though they are not a founding team with great international or previous start-up experience, which most literature argues is the best in Born Global companies, they are capable of leveraging their various intangible resources to perfection, which is exactly what Resourced Based View is all about. However, and most importantly, the team does not have the extensive international experience that literature tells us is of the utmost importance.

4.5 The Product

"If you want to create a great product, just focus on one person. Make that one person have the most amazing experience ever."

- Brian Chesky (pando.com)

Many consider Airbnb a disruptive innovator in the industry, as they are now a serious solution for people in need of a place to stay when traveling. The reason for this to be possible is partly due to the platform business model they operate on today. When Airbnb was first launched, they did not offer all the great services offered on the platform today. Existing Born Global literature (Rennie, 1993) has told us, that innovative technology is very often one of the decisive factors that leads companies to early internationalization, and enables them to be very competitive. Rennie mentions this back in 1993, a time where the world had not yet seen the true value of platforms, not even the dot com bubble had taken place (Internet Bubble from 1997-March10, 2000), meaning that Rennie could not be referring to any type of internet based innovative technology, and especially not the type of platform technology developed by Airbnb. It does hold some value though, as Airbnb is very innovative in the way of thinking of the hotel industry, and how to implement technology into it.

What they did was to rethink the entire perception of how to accommodate travelers. In the literature by Rialp, Rialp & Knight (2005), it is mentioned that companies with a superior product as well as companies developing leading technology that can easily be scaled into foreign markets, are more likely to internationalize. So in some ways, as this was after the Internet Bubble, there are certain similarities that can be seen in this literature as well as Airbnb, when it comes to the scalability of the product.

When creating a business, there are four fundamental factors that needs to be determined, as these will shape the value of the product (Choudary 2015);

- Value creation
- Value consumption
- Quality control
- Scaling value creation

In order for Airbnb to be able to compete with the big established companies around the world, they had to rethink these four factors when building their product. By rethinking these four factors, Airbnb has been able to develop a platform, serving the same old need of accommodation when traveling, but with a totally different service. This has ensured, that by differentiating from existing competitors, they are able to reshape the entire perception of how to find and book accommodation when traveling.

4.5.1 Value Creation

This is the first step in building the Airbnb platform. If there is no value creation, there is no supply. Value creation in this industry is very much related to the amount of spaces for rent.

By developing an array of tools, for private individuals owning a space, to run their own little Bed and Breakfast, Airbnb has opened up for a whole new way of creating value in this industry. Clearly, the development of these new tools offered by Airbnb, have unlocked a supply for accommodation, that would not have existed by traditional thinking. The fact that Airbnb is a global company, gives private individuals the opportunity to market themselves towards an international market.

Only changing the perception of value creation, is however not enough for a company to succeed the way that has been the case with Airbnb. Before Airbnb was launched, others such as Craigslist (craigslist.dk) had tried to run a platform where users could rent out space, but they never got the traction that Airbnb got. Having said this, it leads us to how this created value is consumed by the users of Airbnb.

4.5.2 Value Consumption

Once Airbnb had developed a way for people to list their available spaces, they went on to the next step in building the Airbnb peer-to-peer platform. This step is focused around changing the behavior of the consumers.

Staying at a stranger's apartment or other type of space, is very different from traditional ways of accommodation when traveling. Nonetheless, this is exactly the unique and challenging task Airbnb decided to build their platform on. Having developed tools for users to list their available spaces, at prices cheaper than traditional accommodation, enabled them to attract customers for the simple reason that they could offer cheaper accommodation. Simultaneously, this new supply of accommodation, proved very helpful for people looking for rooms during times where every hotel was booked, for instance during major conferences. As the lack of available rooms during these major conferences, forced people to look for alternative accommodation, Airbnb was a great solution. The fact that Airbnb could offer available accommodation for travelers during peak dates, effectively began the change in behavior of the consumers. For people attending a conference, it was for many not considered strange to sleep at a stranger's place anymore. And as time passed, this change in behavior would spread to more regular leisure travelers. To ease this change in consumer behavior, Airbnb has a large focus on developing tools to facilitate the communication between its peers. They have for instance launched an app for Apple watch (techcrunch.com[4]), to facilitate smooth and instant communication between its peers, during the entire trip. Improving communication between its peers, is a major step towards changing the behavior of the users. When users get an instant reply to their questions, such as the password for the Wi-Fi, the overall experience of the trip improves which in the end facilitates the change in consumer behavior.

Having now looked into how Airbnb changes the creation of value in the industry, as well as the general change in consumer behavior their platform has been able to facilitate, we will have a look at the third and most important factor of the Airbnb platform.

4.5.3 Quality Control

When Airbnb was first launched, the supply of space for rent was very poor compared to what it is today. The reason for this is that when they were first launched, they did not have a strong curation system in place. Launching with a supply of lesser quality than other accommodation types worked because they were able to leverage the huge demand for accommodation during major conferences. But in order for Airbnb to become a mainstream supply of accommodation for travelers, they had to ensure that the quality of supply would improve organically. If they had not been able to do so, the consumers would have had bad experiences, which essentially would have put a cycle of consumers abandoning the platform in motion. Instead of a downwards moving trend, Airbnb has invested heavily in building its curation system, enabling them to offer a service of high quality. By letting consumers and suppliers rate each other (airbnb.dk[5]), they built a system where it is critical for the supply side of the platform to offer the best service possible. Because if they do not, they will receive bad ratings, which in turn decreases their chances for bookings. Suppliers with high ratings are able to increase their prices, thereby earning more money. Simultaneously, consumers are rated by the suppliers, which is a strong influence for them to behave respectfully when renting a strangers' space.

This curation system on the Airbnb platform, has set a cycle of growth in both supply and demand in motion. When consumers consistently have a good experience using the platform, they will automatically attract more consumers through word of mouth. Thereby increasing the demand for accommodation, which leads to it being more attractive to list spaces for rent, hence increasing the supply. As the supply side grows, there are more options to choose between for the consumers. This positive network effect leads to the platform growing organically.

Though the curation system is and constantly will be improved by Airbnb, as it is essential for the quality of the platform. There is a fourth factor very important for Airbnb to be able to disrupt the industry, which is how to scale the platform.

4.5.4 Scaling Value Creation

The reason why platform businesses all of a sudden are able to compete with their more traditional competitors is, that they are very often able to scale at an incredible pace. It has previously been a necessity in this industry to build new hotels to increase supply and thereby create more value. Creating value this way is very expensive, as there are not only major upfront costs, but also costs for maintenance and operations along the way. Disruptive innovation is in recent time becoming a very popular term, as established companies in various industries are disrupted.

With Airbnb operating a platform, and having developed a very strong curation system where peers review each other, they have ensured that they are able to increase the supply side immensely without ruining the quality of the platform, as the curation system will automatically remove any supply that is not of high enough quality.

With many platforms in the sharing economy, people within the same geographical location are connected, but this is where Airbnb differentiates themselves. The Airbnb platform is developed to offer a service of accommodation for travelers. This means, that consumers traveling to a city like New York, would return to their home city after the stay, and spread the word, some would even become hosts themselves. Especially the fact that many users of Airbnb would start out as consumers, and later turn into hosts themselves, is a very important factor for Airbnb to be able to scale the value creation at the pace they are (youtube.com$_1$). In 1994, Oviatt & McDougall discussed how unique resources that create value in more than one country, can create a sustainable competitive advantage for the companies, and thereby ensure the success of an international new venture. Though this was back in 1994, before the dot com era, it still holds some explanatory value in relation to Airbnb, as one of the forces for Airbnb is that their platform and especially its users generate value in countries all around the world.

As Airbnb has developed a platform facilitating communication between its peers clearly their product is a tangible resource, but what is interesting is the resource their users provide. As an intangible product resource created by their users and worth a lot more than the product itself, there has been done no research on this in the past. Most literature is talking about how the product itself holds the value, but that is not the case with Airbnb. Surely they have developed a user interface and reinvented the industry, but the true value of the product lies in its users, meaning that there is clearly some limitations in this area of the literature.

4.6 The Organization

Building an organization in a high growth Born Global company, can be a challenging task, especially when scaling at the pace that has happened with Airbnb. As Airbnb are disrupting an existing industry, it is especially important that they build a flexible, yet very structured company, capable of exploiting the opportunities in the market.

As we learned in the previous chapter about the product, it is essential for Airbnb to consistently improve all aspects of the platform if they are to have a chance in competing with the quality offered by the competition from the hotels as well as smaller companies similar to Airbnb. Simultaneously Airbnb is doing something no one has ever done at this global scale, which means that Airbnb has an extraordinary need to facilitate learning and innovation within the company if they are to change the industry, while ensuring that every employee is still working towards the same goal.

4.6.1 Culture & Hiring

At Airbnb, the culture is everything for the company to scale efficiently, and it has from the start been the founders goal to build a strong culture where ideas will flourish. In order to build the best culture possible, Brian Chesky decided very early on that he would interview all new applicants, which he did with somewhere around the first 200 employees. This decision tells us that Brian knows how important the intangible resources of human capital within the company are to get right from the beginning. It was not really scalable though, having Brian interviewing all new applicants, so he had to come up with a new way of doing it, while maintaining control over the hiring process and thereby the culture of the company. First, Brian Chesky handpicked and trained every single interviewer himself, by spending months together with them. Later he started building an inner circle of people training interviewers, ensuring that the hiring culture continues in the same direction as set by Brian himself. The entire process of hiring has further been intensified, as specific culture questions have now been implemented into the interview process ($youtube.com_1$). The culture is not directly mentioned in the literature, but there are other factors which are highly influenced by the culture, factors such as proactively seeking business opportunities, and being innovative, which was mentioned by Zhou in 2007.

4.6.2 Lean Innovation

As mentioned previously, it is extremely important for a Born Global like Airbnb to facilitate internal learning and innovation. At Airbnb, they have implemented a process of lean innovation, as they embrace new ideas, no matter which employee comes up with them. One way of doing this, is by working in small teams throughout the entire organization. Teams often consist of less than 10 members, that all work together from the initial idea phase, through presentation with data to management, then building the idea so that they can finally test it. This way of working in small teams, where they are not restricted by tasks from management, but instead are given a huge responsibility, enables innovation to flourish. Simultaneously, each team consists of members with various professions, which makes each team learn and understand the entire process, thereby working in the same direction. In the Resource-based View study of Born Global companies from 2006 by Rialp and Rialp, their findings greatly align with Airbnbs way of working in small but diverse teams. Airbnb acknowledges that human resources, and in general the organizational capital resources have a major impact on the success of the company.

One of the strongest internal assets of Airbnb is their culture, and thereby their ability to all work in the same direction, without necessarily being told what to do (readwrite.com). This aligns with a study from 2000 made by Yeoh, as he investigated young Born Global companies. What he found was that the way the organization operates as whole, is one of the most influential factors when it comes to the search and sharing of information. Airbnb have established a very lean operations structure, as shown in figure #1, enabling them to exploit opportunities suddenly arising. Something such as the flexibility, was already mentioned by Ganitsky back in 1989, as he discussed how Born Global companies by being flexible compared to their competitors, were able to gain a very competitive advantage. Again in 2005, Rialp et al. argued that the ability and flexibility to quickly adapt to market changes is very important. As

Airbnb operates in small teams, innovation flourishes and a lot of features are developed and tested, providing them with data that can be used when making decisions on how to exploit opportunities or protect themselves from threats.

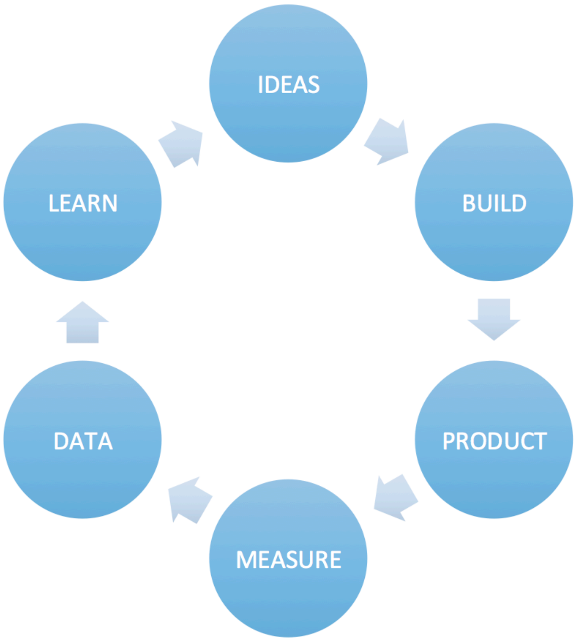


Figure 5

This approach combined with the structure of small teams, embraces learning and innovation within the company, essentially leading to a major advantage in the market. Airbnb is very data driven, so when coming up with new ideas, they are always backed with data, suggesting why that specific idea should be worth pursuing. The fact that they do not just discard an idea if there is just the slightest data backing it up, makes Airbnb pursue a lot of ideas, which eventually leads to building the idea and testing it. This process not only incentivizes employees to come up with ideas, it also provides an immense learning for the entire company, as well as enables them to stay innovative and implement the very best solutions, or in some cases even tailor their solutions to exploit specific opportunities in certain markets. This makes Airbnb capable of always staying on top when it comes to innovation over its competitors. According to all the literature, this way of proactively sharing knowledge and allowing many ideas to be tested and evaluated, is very important and a competitive advantage as it supports innovation. Most of the literature related to Born Global companies, is from 10-15 years ago, but it still holds an immense value when it comes to the companies approach to learning and sharing of knowledge. Especially in the world we live in today, the tech industry and markets in general evolve at a pace never seen before, requiring Airbnb to proactively support an innovate culture.

4.7 The Environment

In order for us to properly assess the Environment in which Airbnb operates, it is important to first examine the traditional hotel industry. The reason for this, is that Airbnb is in the process of developing an entire new industry running alongside the traditional hotel industry.

4.7.1 Traditional Hotel Industry

The need for accommodation when travelling has been around for as long as humans have been travelling, but during the past century or two, the hotel industry has evolved itself into the industry we know today. During the past decades, the hotel industry has experienced an immense online evolution. Not in the way supply is created, nor in the way supply is consumed, but in the way hotels are found, reviewed and booked. With the rise of the internet, websites such as Expedia gathering thousands of hotels have emerged, providing the consumers with one simple place to find and book a hotel. Naturally, this has improved the exposure of hotels to consumers around the world, facilitating further growth in the global hotel industry. However, even though the internet has had a significant impact on the hotel industry over the past decades, not much has really happened in the way the industry operates. Companies build hotels to increase supply, and consumers find, book and pay for a room and a certain expected service.

The global hotel industry is a huge industry, worth US $457bn in 2011 and expected to grow to US $550bn in 2016 (statista.com). Even though the size of the industry is enormous, the growth is not something that according to the literature would normally be considered as an industry suited for a Born Global company. With a growth of a little more than 20% during a 5-year period, it is pretty similar to that of many industries, simply due to the world constantly becoming more connected, the average living standard around the world increasing and the world population growing.

It is however very important to note, that a lot of the growth happening in the traditional hotel industry is due to the increased demand for luxury hotels around the world. The demand for this type of hotels is on the rise due to several factors, but the increased amount of international events bringing business travelers to major cities around the world is an important factor for the demand in luxury (prnewswire.com). From a first look, the growth in the traditional hotel industry does not align with any literature. Literature such as Fernhaber, McDougall and Oviatt in 2007 mentions that companies that internationalize early on are often operating in high growth industries, where they want to quickly exploit their technology in as many markets as possible before competitors copy their product.

In the following, we are going to analyze the traditional hotel industry through a Porters Five Forces analysis. This we will do, as it creates a great understanding of all the forces that shape the industry.

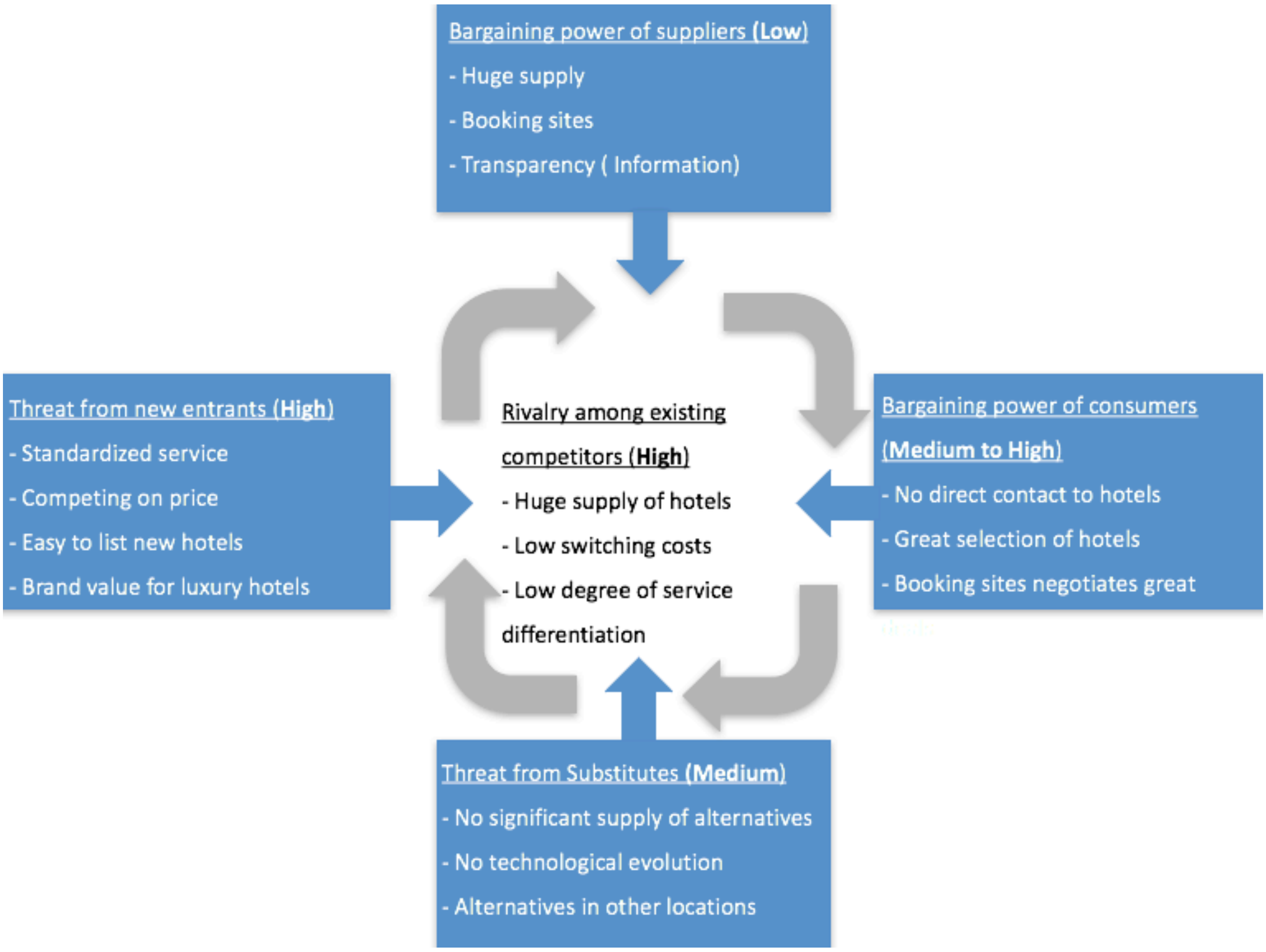


Figure 6

The first step is Bargaining Power of Suppliers. With the increase in online hotel booking companies like Expedia, the suppliers are now in a situation where consumers can easily find and book hotels around the world. Companies like Expedia that enable consumers to easily compare hotels, have become a very popular place to look for hotels. In many cases, hotels cannot afford not to be listed on these sites as they would otherwise not get the same exposure and amount of bookings. This in many cases gives Expedia and similar hotel booking sites the power over hotels, enabling them to take a great cut off each booking. The hotels have lost a lot of their bargaining power to these booking sites, as they are able to not only take a cut off each booking, but also to set certain rules that must be followed by hotels if they want to be featured on the booking sites.

The second step is Bargaining Power of Consumers. The story with the consumers is very much similar to that of the hotels. As booking sites have become the place to go for hotel bookings, the consumers have one place to find and book a hotel, but in the end they do not really have any leverage in negotiating extra services from the hotels or other special deals. The booking sites are the ones in direct contact with the hotels, creating special deals offered on their sites, and then the consumers can decide whether or not to make a booking. Though the bargaining power of consumers is significantly higher than that of the suppliers, a lot of the power has also here shifted to the booking sites.

The third step is Threat of new entrants. At first glance, the threat of new entrants might appear to be low, as up front costs to enter the industry often are very high. Combined with the fact that location can be a crucial factor and therefore is a strategic essential part of running a hotel, it appears to be very hard for new entrants to compete with existing hotels with great locations and an established brand name. Especially beach front hotels offer a unique service due to their location as there is only a limited amount of beach front locations available.

Having said that, the service offered by hotels is often very standardized and thereby easily copied by new entrants with the capital to build and run a hotel. As it is so easy for new entrants to offer the same service as existing hotels, it is worth mentioning the brand value of existing hotel chains such as Hilton (hiltonhotels.com) and Marriot (www.marriott.com), securing them loyal customers less likely to switch to new entrants. This brand loyalty however is according to a survey by Deloitte mostly related to luxury Hotels such as the above mentioned, who often offer the best locations and highest service. The survey also mentions how price in many cases is the decisive factor, which due to booking sites and the availability of information they provide, enables new entrants to quickly gain traction by simply offering lower prices compared to similar hotels at the same location (hmghotelsblog.com).

To put it short, the threat of new entrants is small when it comes to luxury hotels, but very high when talking about average hotels.

The forth step is Threat of substitutes. The traditional hotel Industry in major cities has seen very little threat from substitute products during the past decades, as there has not really been a significant supply of hotel alternatives. The story is a little different when talking about the industry in rural areas, as accommodation alternatives such as camping grounds and hostels tend to be located outside of the cities. These types of accommodations however are not a significant threat to the hotels, as they offer a service very different from that of hotels and the location of these attracts a different segment of travelers. The fact that the threat from substitutes has not really been significant for so many years, should probably be found in the fact that the industry besides the revolution of the internet has seen very little technological improvements. However, as the industry up until lately (before Airbnb) had not seen any real technological improvements, this left room for substitute products, facilitated by technology.

The firth step is Rivalry among existing competitors. When looking into the rivalry of existing competitors in the industry, it is important to take into account how easy it is for the consumers to switch between hotels and still get a similar level of service. First of all, there is a huge supply of hotels around the world. By taking a quick look on one of the booking sites, it is clear that they offer bookings at hundreds of thousands of hotels (hotels.com), and that is only they hotels they have listed. Meanwhile, there is very low switching costs for consumers, that due to the low degree of service differentiation can easily switch to a similar hotel without major switching costs. When succeeding in the Hotel Industry, there is a lot of money to be made, so it is fair to say that taking the high stakes into account as well as the above mentioned factors, there is a major rivalry among existing competitors.

4.7.2 Airbnb and The Sharing Economy

The traditional hotel industry has stagnated at a level where the service offered is very standardized and the hotels are loosing power to the booking sites. The fact that the hotel industry has seen no real evolution besides from the online revolution makes it obvious that there is room for a technological revolution in the industry, just like we have seen in many other traditional industries. With the appearance of Airbnb, the technological revolution is coming. As mentioned previously, the emergence of Airbnb has not disrupted the traditional industry. What appears to be the case however, is that Airbnb has created a similar industry running side by side with the traditional hotel industry.

As we did with the traditional hotel industry, in the following we we will examine the industry in which Airbnb is the leading force in shaping it. This we will do through a Porters Five Forces analysis.

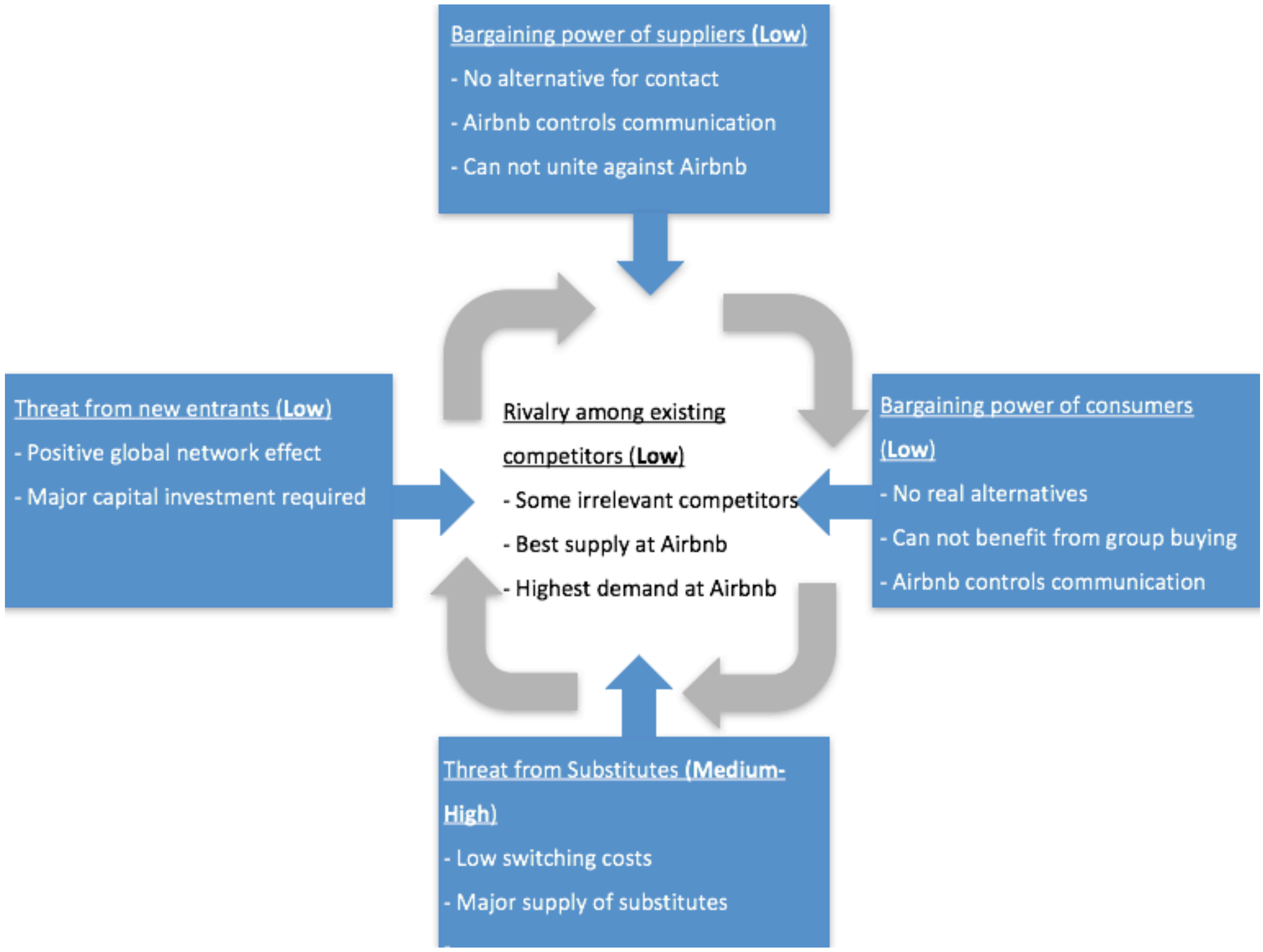


Figure 7

The first step is Bargaining Power of Suppliers. With Airbnb having developed a platform to facilitate the interaction between private individuals, they are basically operating a peer to peer platform. As we have experienced, more people decide to list their available space on

Airbnb because the demand is ever increasing, and simultaneously the demand continues to increase because the supply to choose between increases, creating a positive spiral effect for Airbnb. The situation Airbnb has positioned itself in, is that the true value of their platform lies in their users. Since this is the case, one would assume that the bargaining power of suppliers is very high, this however is not the case right now. Suppliers do not really have an alternative place to connect with customers the way they have through Airbnb. Simultaneously, Airbnb has positioned itself right in the middle, and since the suppliers are scattered individuals with no connection between each other, they are currently not able to rally and together place demands on Airbnb. All together, this leaves no real bargaining power with the suppliers.

The second step is Bargaining Power of Consumers. As Airbnb is creating a brand new way to accommodate when traveling, by utilizing the already existing supply of space in cities, there are currently no real alternatives for consumers to find and book private spaces around the world. Very much as is the case for the suppliers, Airbnb controls the connection between supply and demand, leaving the consumers with no real leverage. As Airbnb has built a platform for potentially everyone to join, and at the same time kept the access to their supply closed, and as bookings can only be made through the Airbnb platform, it has not been possible for any consumers or companies to join together and benefit from group buying, like we saw happened with the rise of booking sites in the traditional hotel industry. This means, that the bargaining power of consumers is very low.

The third step is Threat of new entrants. The true value of Airbnb in many ways lies in its users. We have touched base with this fact several times, and especially when analyzing the threat of new entrants, it is essential to understand the positive network effects happening for Airbnb.

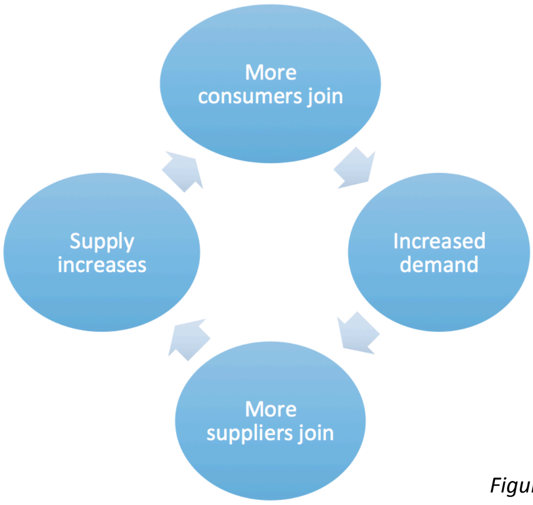


Figure 8

Every time a new consumer joins the platform, it increases the total demand for spaces to rent on the Airbnb platform. This increase in demand makes it more attractive for new suppliers to list their spaces on Airbnb, which in return increases the supply and thereby the amount of spaces to select between as a consumer. As the supply increases, it becomes more attractive for the consumers to search for accommodation through the Airbnb platform, and a positive network effect has been set in motion.

This network effect ensures that the true value of Airbnb lies in their users, as the service gets better with every new user joining Airbnb. This means, that it is not easy for anyone to copy Airbnb, as it is not just about developing a product, it is just as much about getting the users onboard, since the software is worthless without users.

Companies can not just compete with Airbnb by developing a similar software, so the threat from new entrants is considered low, as it would require a major capital investment to acquire the same network effect that Airbnb has managed to create, if even possible.

The forth step is Threat of substitutes. When we previously analyzed the traditional hotel industry, we found that the threat from substitutes was present but not high, since no technological evolution had taken place. Now that Airbnb has undertaken this technological revolution, they have created a substitute to the traditional hotel industry. This simultaneously mean that the sharing economy in which Airbnb operates, is subject to a very high threat from substitutes. Simply because there are no switching costs for the consumers to choose a traditional hotel, hostel or whatever type of accommodation they prefer. As we found in the analysis of the traditional hotel industry, there is a major supply of hotels and other types of accommodation, so leaving the users of Airbnb with many alternatives.

It is however worth mentioning, that Airbnb emphasizes that the listing they offer, is of a different type than the one offered by the traditional players. By this, they mean that when traveling with Airbnb, the consumers experience a different feeling of traveling like a local, an experience hotels and others can not offer to the same degree.

The firth step is Rivalry among existing competitors. Currently there is no real competitors to Airbnb. There are other services such as craigslist (craigslist.dk), Homeaway (homeaway.dk) and Flipkey (flipkey.com) where it is possible to list and book private spaces, but none of them have managed to grow to the size and quality of Airbnb. The reason for this is most likely subject to something we have already addressed, i.e. the network effect achieved by Airbnb which has really made their platform the Go-To place for alternative accommodation, as this is where all the demand and supply is to be found.

4.7.3 Turning a stagnated industry into a high-growth industry

When reviewing the literature, it became clear to us that successful Born Global companies most often enters industries with high growth. But looking at the traditional hotel industry, it is an industry that has stagnated, and not a high growth industry. According to the literature, the traditional hotel industry is not an industry suited for a Born Global company, as it has no significant growth, and technological differentiation among competitors was not and still is not possible. Clearly some factors were present in the traditional hotel industry, factors not taken into account in the literature, but which created the foundation for a Born Global tech company such as Airbnb to enter and succeed on a global scale. As mentioned by Fernhaber, McDougall and Oviatt in 2007, the industries in which early internationalization is most common are also supposed to be knowledge intensive industries. This is clearly not the case with the traditional hotel industry, actually quite the opposite as the service and product can easily be copied.

What Airbnb has done, is that it entered an industry that has not evolved in many years. With the use of a very scalable platform, it has facilitated the communication between its peers, and thereby enabled people to share their spaces. This use of the sharing economy combined with its use of technology has enabled Airbnb to create a new high growth industry for accommodation, operating alongside the traditional hotel industry. It is interesting to see, how a stagnated industry that is quite the opposite to what literature tells us it should be, can be the perfect industry for a company to enter, as the sharing economy and platform technology enables companies to create a similar industry alongside a traditional and stagnated industry. In 2008, Kudina, Yip and Barkema mentioned how a small home market supports early internationalization. Airbnb was launched in the US, a huge market, so clearly the market size was not the reason for them to internationalize. The reason was that since they are in the travel business, demand for their service was not just a local demand in a single city, it was potentially all around the world. This means, that if they had not internationalized early on, they would simply not have been able to offer the same quality of service. People today expect a one stop platform for their accommodation bookings, and not just a place for whenever they are traveling to San Francisco where Airbnb started. This is interesting, as literature clearly does not take into account the pace that tech companies are capable of scaling, and thereby the importance for a company like Airbnb to quickly acquire supply and demand from everywhere, before a competitor would have done so. Literature tell us that companies internationalize because they need to in order to find enough customers for their product, where the real story with Airbnb is that they internationalize because the users are so important and they know that whoever gains a positive network effect from its users first will win, not necessarily the company with the best product.

4.8 The Strategy

As Airbnb entered the industry for accommodation, they could have done so in many ways. Many have tried to enter the industry in a traditional way, by running a hotel, Bed&Breakfast or something similar, but that was not what Airbnb did. As we already know, the competition in the traditional hotel industry is fierce, and it is extremely difficult to stand out. The Airbnb strategy for entering this industry was very different. They could see what technology had become capable of, and the era of platform-based sharing economies was slowly starting. By entering the industry of accommodation, with the platform they did, they were able to differentiate themselves on a whole new level never seen in the industry before. This differentiation strategy is the single most important strategy of Airbnb, as it is the core reason why they have managed to grow larger than many established hotel chains. In 2005, Knight and Cavusgil did a study on Born Global companies, categorizing the companies into four strategic groups. One of these was differentiation strategy, and it perfectly aligns with the way Airbnb has gained traction and success by offering more or less the same product, accommodation, but in a completely new way that differentiated them from the competition. Knight and Cavusgil however also mention that a cost leadership strategy is not suitable for a Born Global company, as resources are often very scarce. This does not really align with Airbnb, as they not only differentiate themselves on the service they offer, they are in many cases also a lot cheaper than traditional hotels. This they can do because they, as we have previously discussed, completely rethought the way they generate supply. Airbnb does not have big costs to increase supply, as they utilize already existing spaces. By doing so, they can afford to only earn a certain percentage off each transaction, which hotels can not because they have several fixed costs to pay. By rethinking the industry in the way they did, they have managed to build a similar but new sharing economy industry, that runs alongside the traditional hotel industry. Obviously developing a platform is not enough to gain traction, users are needed too. Especially in a platform-based company where the users are the real value and basically is the product.

As Airbnb is operating a platform-based sharing economy, they have taken several steps to cater to their existing users as well as reaching out to new users.

In the following, we will go through Airbnbs user focused strategies and the initiatives that they have taken to first of all solve the chicken and egg problem (what comes first, supply or demand), and secondly retain its users.

4.8.1 Referral Program

One of the most important strategic decisions to gain growth was their attention to how Airbnb could generate new users and sustain exponential growth margins. Airbnb turned toward Paypal. Paypal had introduced a referrals program were users got cash bonuses for referring new users and users received cash bonuses for first time use. By using a referral program Paypal had been able to average 7-10 percent growth daily. (referralcandy.com) For the way Airbnb had based their platform, a referrals programs fitted perfectly into their wishes. To implement their referrals program Airbnb had to analyze and adapt their referrals to six steps.

Step one, Airbnb had to select a customer segment to implement their referral program on. Airbnb needed to select a customer segment that were loyal to them and would be great ambassadors. Airbnb went with a referral program where users could send a link to friends and when they created an account and made their first reservation the user would receive travel credit to Airbnb (airbnb.dk$_6$). A referral program was also created to lure new hosts onto the platform where new referrals that created host profiles also got travel credit to Airbnb.

Step two Airbnb had to find the appropriate amount to reward their users with. It was important to find a level that would generate surplus for the user but at the same time be a sustainable solution for Airbnb. Airbnb came up with referral program where new users could refer other new users via e-mail. If the new user created a profile and made a booking via the website the referrer would receive a 25$ travel credit. When the new user created a profile the user would also get a 25$ travel credit. When new users created a host profile and rented their apartment for the first time the referrer would receive a 75$ travel credit. They set a limit of 5000$ in travel credit (airbnb.dk$_6$). Airbnb saw the importance in new users and especially new hosts. For Airbnb to continue growing, new hosts and thereby possibilities to stay were essential. Airbnb recognized these factors and therefor rewarded host referrals better. The reason why it is harder to get new hosts onboard, is also that it takes more for a person to rent out his/her personal space rather than staying at someone elses.

Step three, Airbnb had to create a situation were it was attractive for both the new user and the referrer. If for example only the referrer gets travel credit, then the new user has no extra incentive to create a profile. By rewarding the user with creating a profile the incentive is there. Airbnb understood the need to create incentive for both parties to create a situation were rapid growth was possible.

Step four is about letting the public know about your programs. Airbnb made it clear via their website that the referral program existed and how it worked. It was important for Airbnb to also get in contact with the general public. They had via advertising told the public about the benefits of creating an Airbnb profile. To their existing users Airbnb e-mailed a link so they could encourage friends and family to become a user. In their e-mail Airbnb told their user the benefits of their referral program. This created a situation where users could generate enough travel credits to travel free via Airbnb. Users created blogs about how to travel free via Airbnb creating more media coverage and thereby getting out to more potential users (tortugabackpacks.com). Airbnb recognized the importance of having a good referral program and learned from Paypal before they personalized their referral program to fit to Airbnbs users. Airbnb recognized the importance of having a referral program and in the end reaping the benefits and partly linking their success in size to their referral program.

4.8.2 Digital Media Strategy

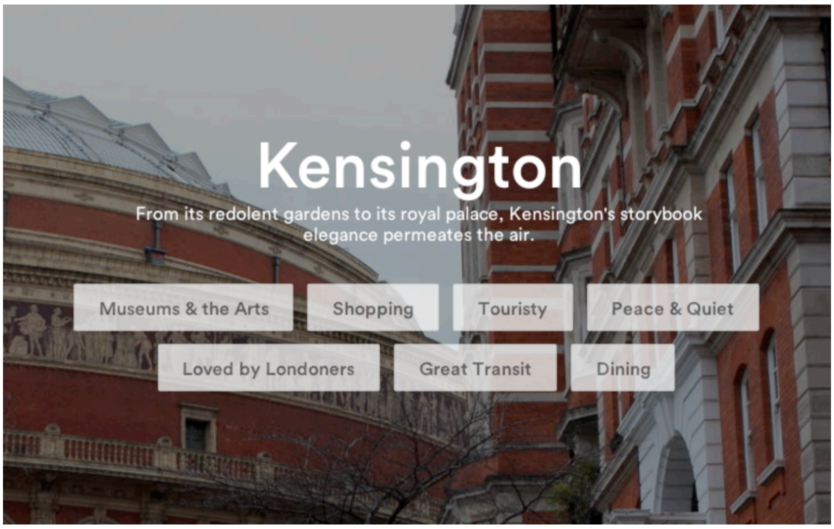
As Airbnb does not have a physical product to present they had to figure out a way to promote the product they had. Airbnb saw the importance of social media and mouth-to-mouth reviews from users and the trust it could create in their brand. Airbnb understood that without a physical product they have to promote different aspects to get users to use their platform.

"Our community is core to our business. From the moment that people land or start their trip, they're going to be Tweeting and facebooking, they're basically opening up a conversation and we want to be part of it."

- Venitia Pristavec, Creative Lead, Airbnb (hootsuite.com)

As Airbnb Creative Lead, Venitia indicates, it is important to use social media and understand how to use them, as everyone uses social media to talk about their lives and experiences. Airbnb want to be part of the journey with their users and use their experiences as part of their strategy. Airbnb had divided their social media strategy into three segments where they intensified their focus.

The first part was on how they could communicate to users the uniqueness of the places Airbnb had accommodations. Airbnb had understood that many of their users wanted to understand and see the local culture from a local residents perspective and not as a tourist. Airbnb created a Neighborhood guide were characteristics where highlighted of specific neighborhood in cities. As seen in the figure below a description of the possibilities in the Kensington area in London.



(airbnb.com[7])

Figure 9

Airbnb used the knowledge from local users to create a guide for travelers so that they could experience the local feel. The guide consisted of options on how to get around the neighborhood, what attractions the area has to offer, shopping possibilities and places to eat. Airbnb added a feature that let users know what locals in the area liked about the neighborhood. The feature was created from users living in the area and travelers that had visited the neighborhood. These features combined give travelers the understanding and feeling of being a local.

The second part was using users for storytelling and expressing their experiences through Airbnb. Airbnb uses storytelling a great deal to express user experiences whether it is through movies created via crowd sourced vines or birdhouse replicas of their most intriguing properties.

Airbnb uses movie vines from their users on their website to create a homely atmosphere and illustrate how they use their apartments. Airbnb used these vines to tell a story about why the users become hosts and to let users get to know their potential host.

Airbnb also created a campaign that illustrated homes in smaller birdhouse models. Airbnb wanted to innovative their marketing and show that the users create a welcoming feeling.

(fastcodesign.com) *Figure 10*

“We created these birdhouses inspired by real Airbnb homes and the accompanying film as a metaphor for the hospitality about which our company is built"
"Our hospitality is completely individual and designed by our hosts who know that making people feel at home anywhere in the world comes from warmth, intuition and an attention to detail. We love the world's real travelers, and this is an invitation to travel in a new way."
Amy Curtis-McIntyre, CMO Airbnb (adweek.com).

Finally Airbnb used crowdsourcing as a social media campaign. It was important for Airbnb to create their campaign in a way that they still had control over the contents. It is hard to control a hashtag on instagram or twitter (urbandictionary.com) and can easily have the opposite outcome then what was expected. Airbnb created a campaign where users via a platform can create their own personalized version of the Airbnb logo (airbnb.com8). Airbnb let users select colors and patterns then let them share their customized logo along with photos from Airbnb experiences via social media. Airbnb use the hashtag #BelongAnywhere. This platform allows Airbnb to get their logo integrated with fans but at the same time control and promote the contents that best fit their brand using their own social media channels.

As Airbnb has created a new market forum within the travel industry they have also used new and creative marketing initiatives as seen above. Airbnb recognized that their users and new potential users were first movers when it comes to using social media and shopping online. For their users these platforms were part of their everyday routines and shopping habits. Airbnb recognized these trends from their users and created alternative marketing strategies to work within the boundaries of social media platforms.

4.8.3 Localization

Airbnb has been one of the fastest growing companies in newer time and currently has one million listings in 34 thousand cities spread throughout 190 countries. After The United states have opened up for Americans going to Cuba Airbnb focused on making this location available via Airbnb. Airbnb has over 1 thousand listings in Cuba at the present (fastcompany.com).

As a brand and their product portfolio, Airbnb needs to present itself as a global company. For this to be possible Airbnb has focused on having websites customized for the country their website is opened in. One of the focus points of this customization is translation into the native language.

"*It is important that we are both international and local at the same time, because of this, we've taken many steps toward localization, one of which is translation.*"
Jason katz-Brown, engineer at Airbnb (oneskyapp.com).

Because of these efforts Airbnb is available in 26 languages. Airbnb has made this possible and fast integrated by building a customized translation management tool (TMS). This TMS can help to integrate new languages and translate updates almost immediately. When new updates are added to the main site the TMS takes screenshots and sends it automatically to Airbnb translators around the world. The updates are then translated and directly updated onto the webpage so users have updated platforms shortly after the main platform is updated.

Airbnb had the challenge of prioritizing which information should be translated first. When larger updates of changes to setup was made many thousands words had to be translated. Airbnb engineers developed a system that prioritized content after search patterns on websites. This made it easy for programmers to prioritize which segments to send for translation first. It also gave programmers the option of sending different updates for translation to different countries all depending on that specific countries search patterns.

In the beginning Airbnb used in-house translators and crowd-sourced translators. In the crowd-sourcing process Airbnb used existing users to help translate into their native languages. The abundance of users willing to help in the translation also helped in proofreading of translations. This way Airbnb could ensure that material that was translated was correct within spelling and composition with the help of in-house translators and local managers. Local managers and in-house translators help in correcting the translation so it fits with the overall corporate language tone (oneskyapp.com).

This way of localizing their service is really interesting, as it first of all is a clear evidence of how important the users are to the Airbnb platform. Furtermore it aligns with existing literature; in 2004 Knight, Madsen and Servais investigated marketing related strategies in Born Global companies, and what they found was that Born Global companies should tailor their strategy for each foreign market they enter.

4.8.4 Blue Ocean Strategy

Airbnb entered an existing industry were there were two opportunities, the traditional lodging (Hotels, hostels, bed & breakfast etc.) industry, and couch rental websites which is most known for backpackers with a minimal budget for accommodation. Airbnb positioned itself in a new position compared to the traditional options. Airbnb did so by using existing technology, and completely innovate the use of it in an industry like the hotel industry, which had seen very little technological innovation since the dot com era.

W. Chan Kim and Renée Mauborgne who are the founders of the blue ocean strategy defines it in 8 key points. One of witch states:

"Blue ocean strategy is based on the simultaneous pursuit of differentiation and low cost. It is an 'and-and,' not an 'either-or' strategy"

- W. Chan Kim and Renée Mauborgne (blueoceanstrategy.com)

Airbnb have built their company around creating a transaction between users listing properties and users searching for accommodation. Airbnb can keep a low cost by not investing in properties but simply allowing users to get in touch. This allows Airbnb to generate high returns to users and at the same time keep costs low. As mentioned previously in this chapter, this type of differentiation and low cost strategy, is in the literature mentioned as a bad way to approach the market, simply because young Born Global companies, according to literature, can not benefit from economies of scale in their early years. However, with Airbnb the low cost was one of the factors that drove user growth, and due to large investments as well as the platform business model, sharing economy and the network effect their service could achieve, they could allow themselves to aim for economies of scale at a very early stage. Together this allowed Airbnb to create a network with millions of users with little incentive to create new profiles on competitors websites because of the fact that Airbnb have first mover advantage and are currently the biggest on the market. Airbnbs market share alone leaves little room for competitors to take any market share within the near future.

The founders had a clear understanding of what was important when it came to formulating the strategic path Airbnb was going to follow. Airbnb recognized the importance and the potential in using social media as an advertising platform. Their users were on social media channels so it was only natural to advertise where potential users were. Airbnb also recognized the importance of their first mover advantage within the blue ocean industry and acknowledged the consequences it could have if they lost this advantage. Airbnb created their referral program to act on their first mover advantage and get the benefits of being the largest within their segment.

4.9 Approach to Market Entry

”I might have been the fastest senior hire they made. They were really conscious about time to market – being recognized as the first mover was critical.”

- Martin Reiter (hottopics.ht)

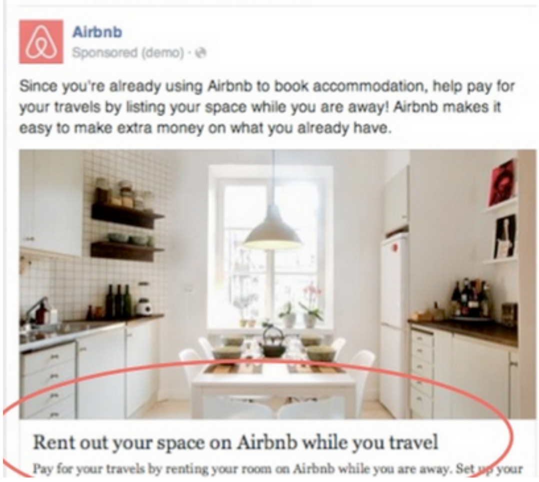
As we have found during this case study of Airbnb, there is clearly a network effect present, enabling Airbnb to position itself as the go to place for alternative accommodation when traveling. As Airbnb operates in an industry where its consumers and suppliers are placed all around the world, the network effects they achieve are not only local, they are global. As global network effects are present, Airbnb had to internationalize very quickly to meet the demand by users traveling everywhere in the world. Had they not done this, they would have been compromising the quality of the service rendered to the consumers. The fact that global network effects are present, also means that it is a clear “winner takes all” industry, where the marketplace with the best service wins. In relation to the literature, Chetty and Campbell-Hunt found in 2004, that Born Global companies that internationalize early on, often perform much better than competitors waiting to internationalize. Though Chetty and Campbell-Hunt back in 2004 probably had no idea of how fast internationalization could actually take place 10 years later, it still holds a lot of value. First mover advantage has always been an important factor, and even more in these days where it is so easy to develop a product, so the important factor is acquiring the user base before others do so.

We have spoken about how Airbnb has been creating a new high growth industry running alongside the traditional hotel industry. The creation of a new industry also means that there is a huge potential for building a multinational success, which leads to several competitors wanting a peace of the pie. Airbnb was very aware of this fact, and understood the urgency for internationalization given the rise of many competitors such as Rocket Internets WIMDU (wimdu.dk). Hence Airbnb designed a rough playbook for how to approach the rapid internationalization, which was needed, taking hiring, country prioritization and finances into account. As Airbnb knew and understood the importance of offering the best service, first mover advantage was very important in order to attract both supply and demand in each market, because only this way would they be able to hold off competition.

”We knew in Russia with their clone industry they would have competitors up and running almost every week so we said we would rather go to Russia and discourage potential investors by planting a flag there than going straight for more overtly obvious financial opportunities.”

- Martin Reiter (hottopics.ht)

This clearly tells us, the importance of first mover advantages in an industry where network effects are present, something that existing Born Global literature lacks to address. Simply the fact, that Airbnb chooses to prioritize entering countries with less financial gains, over obvious countries like Australia, shows how important the approach to market entry can be, because this decision has ensured that they in the long run have less competition that they need to allocate resources for.



growthhackers.com *Figure 11*

In an interview (hottopics.ht), Martin Reiter explains the incredible pace in which they opened new offices after the $112mill funding round in July 2011 (crunchbase.com). In only four months they launched offices in 8 new countries, and after six months the number of new offices was 12. When launching new offices at this speed, it is hard to get everything right, and in many cases we do not believe that was even their plan, they just wanted to make a presence as was the case in Russia, then later on they could build a sustainable organization in each country.

Supporting this theory, where Airbnb launches new offices at an incredible pace to make a presence, and then wait with building a sustainable organization, is an article from 2013 in Business Insider, explaining how Airbnb changed its strategy two years after they planned their rapid internationalization. At this point in time, they decided to slow down their internationalization, and instead focus on reassigning existing employees to new positions and moving them to places, such as a new hub in Europe. This change in strategy is a clear sign that they are well aware that if they continue internationalizing in the pace they had since 2011, they would not be able to build a sustainable organization.

In many ways, Airbnb had to take a very aggressive approach to market entry, an approach where establishing a presence in new markets was more important than actually building a sustainable organization. This again relates to the literature by Chetty and Campbell, as they discovered how Born Global companies in 2004 had a very aggressive approach to learning, and simultaneously they tolerate initial failure better. With Airbnb, and in the literature, we can see that Born Global companies aggressively seek a solution to problems instead of waiting to see what will happen in the marked. In doing so, they often deployed a team of 2-3 employees, doing whatever it would take to create supply. Handing out flyers, meeting with consumers in person to turn them into suppliers and online ads was all part of their market entry in some countries. Later in the process, they would then return to the markets, to further develop them. This aggressive approach is not mentioned anywhere in the existing Born Global literature, and is a clear witness that existing literature has its limitations when it comes to this new type of Born Global company. Not only did Airbnb skip certain steps in their internationalization, which in relation to Born Global companies was mentioned by Luostarinen and Gabrielson in 2006, they literally reversed the traditional approach to market entry. To quickly establish a global presence is far more important than actually building a sustainable organization from the beginning. Traditional Born Global literature would argue that the Airbnb approach to market entry would create an immense risk to the entire organization, but we believe that this is certainly not the case, because if they had not internationalized as rapidly as they did, someone else would have done it and acquired the global user base, which in return would have given them the positive network effect Airbnb currently flourishes from.

4.10 Summary

The founders of Airbnb contradict the existing literature, as they had no previous experience in operating a Born Global company. Only one of the founders, Nathan, had worked for a company that had international experience. The experience however that Nathan came with, can be considered as insufficient as he only had this experience from programing. Airbnb acquired their international experience through their first investor Paul Graham and by aggressively seeking learning. The founders of Airbnb got their idea, as many needed places to stay for a conference. The idea was innovative and created new possibilities within a stagnated hotel industry. They created an innovative product that could not be considered knowledge intensive which is a contradiction to the literature when internalizing. Airbnb created a flexible organization with teams of ten to fifteen people so they could react to changes in different markets. They did not need to create networks within each market as the literature states but instead leveraged their users' interactions to get the knowledge needed. Airbnb entered an industry that was stagnated as the hotel industry has changed very little over the last decades. Airbnb introduced innovative technology in a way that had not been seen before. This enabled them to contradict what the literature states about that Born Global companies should enter high growth market. Airbnb had a strategy to internationalize before potential competitors had the chance to create their own company. Airbnb wanted to leverage their first mover advantage. The literature states that Born Global companies should internationalize at a slower pace, which is a contradiction to what Airbnb have done.