

# Airbnb: The emerging player of Sharing Economy in UAE

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## Abstract

Based in San Francisco, California, Airbnb is a trusted community marketplace catered to the people who wish to list, discover, and book unique accommodations around the world- online or from the mobile phone or tablet. It was founded in August of 2007 and in summer 2008 they found the perfect kick-start for their business (Note 1).

The Airbnb's model has always kept its overheads and operating leverage (fixed asset investment) low by using online app and host and guest business model. With low pricing strategy model and tailored offerings to the needs of many segments with varying needs and price points, Airbnb became a threat to many budgeted hotels in globally and especially in UAE where the cost of living is comparatively high. To convey the challenges faced by Airbnb, the case introduces the background of the Sharing Economy, highlights the strategies adopted by Airbnb, and sheds light on future opportunities.

However, Airbnb had faced several challenges like breaching the laws, illegal listing, renting period, limited in-country assets or workforce, etc. Now Airbnb teaming up with UAE government, which certainly presented its own set of challenges in this sharing economy. (Note 2)

The case is suitable for Innovation and Strategy courses that require students to understand various risk elements in the new venture and role of innovation in the success of a new business. It is an attempt to illustrate a starts up can grow and differentiate itself by adopting "Blue Ocean Strategy".

**Keywords:** Airbnb, Business Model, Sharing Economy, Strategic Advantages And Disadvantages, New Market Entry Strategy of Airbnb, Blue Ocen Strategy

## 1. Introduction

### *1.1 Learning Objectives*

The case objective is to exhibit how Airbnb developed a successful business model by overcoming critical challenges and it attracted and retained customers. The case explores the challenges and opportunities faced by Airbnb globally and in the UAE. Key objectives include:

- To understand Airbnb's business model.
- To understand the background of the sharing economy.
- To explore the strategic advantages and disadvantages of Airbnb in UAE.
- To understand new market entry strategies of Airbnb and how it created sustainable differentiation by exploring uncontested market place that offers scope for building value at low cost.

## 2. Case Overview


### *2.1 Aim & Scope of the study*

The model of sharing economy is changing all the aspects of the traditional economy and it is flourishing all over the world. People are booking accommodations through Airbnb, using ride-sharing service Uber across places and outsourcing their daily tasks to freelance labor through TaskRabbit.

Based out of San Francisco, California, Airbnb is an online marketplace created to the people who wish to list, discover, and book unique accommodations around the world- online or from a mobile phone or tablet. Though established in August of 2007, in summer 2008, they got the perfect kick-start to their business.(Note 3)

Being pioneers in this market space, Airbnb offered diverse accommodation options to the visitors in a safe, secure and controlled manner. It creates unique travel experiences, be it an apartment for a night, a castle for a week, or a villa for a month, at various price point, It made its presence in more than 34,000 cities and 191 countries (Note 4). Through outstanding customer service and a growing community of users, Airbnb is the easiest way for people to rent their extra space (Airbnb official website, 2016). It named as the top four most valuable privately-held companies in the world, behind Uber, Xiaomi and Didi Chuxing (Note 5). According to the Euromonitor's Kosutic, Airbnb listings in Dubai had doubled as compared to last year and it reached to more than 3,500 in 2016. According to the industry experts, the values sales of holiday homes in the UAE rose 21% in 2015, with growth rate expected to reach 22% in 2016 (Note 6).

Table 1. Airbnb

The following are the latest data offered by Airbnb official website:			
	Total Guests <b>60,000,000+</b>		Cities <b>34,000+</b>
	Castles <b>1,400+</b>		Countries <b>191+</b>

Source: <https://www.airbnb.com/about/about-us>

Since its inception, Airbnb had addressed changed consumer behavior successfully and continued to expand its business globally. However, it was never without controversy and conflict. Airbnb had faced several challenges like breaching the laws, illegal listing, renting period, limited in-country assets or workforce, etc. Recently it planned to target UAE travelers by focusing on new markets and segments that could not afford to stay longer by paying high. The objective is to make people stay for long with cheap accommodation, which provides revenue-earning opportunities for the market as a whole. The key expected segment of Dubai is young people who have grown up sharing books, music, and film online that needs short-term rentals as compared to luxurious hotels. In keeping with global demand trends and a highly digitized marketplace for key enablers of tourism infrastructure Dubai's Department of Tourism and Commerce Marketing (Dubai Tourism) has teamed up with Airbnb to promote responsible rentals as listings of holiday homes in the emirate surge and expecting a win-win situation for both.

The core aim of Airbnb and Dubai Tourism partnership was to become more competitive as a tourism destination, to drive demand, to give more choice to attract new guests to this exciting destination and embrace innovation to further government's proposition. With this move, Airbnb can be a big threat to hotel industry as it helps tourists to find cheap accommodation, by undercutting their prices. Now Airbnb teaming up with UAE government, which certainly presented its own set of challenges in this sharing economy. (Note 7)

## 2.2 Sharing Economy

Sharing economy, also known as peer to peer economy, is a hybrid market model in which participants share access to goods and services (Hamari etc. 2015). The concept of sharing resources is not new, which already exists and being adopted in B2B and B2C business. But it is only until recent years that sharing economy has been applied and approved in a variety of new goods and services such as peer to peer accommodation, bus, education sharing etc. It was started in 1995 by eBay. New companies keep popping out like Airbnb, Uber, and Khan Academy.

With the influx of massive design conferences in San Francisco, the idea of the Sharing

Economy came out in 2007. Gradually, the firm started using the concept. It was in 2008, Apple introduced its App Store. The Same year, TaskRabbit was founded and became one of the earliest sharing-economy companies, The connecting people looking for work with others looking to avoid chores. Gebbia and Chesky launched a start up Airbnb and started renting out air mattresses in a San Francisco loft and followed the suite. Naim started ChefXchange, a website that allows foodies to “rent-a-chef” for the night. Today Internet has blurred the global boundaries, and the size of “sharing economy” has multiplied as consumers the world over start to redefine their desires.

United Arab Emirates (UAE) is known for its luxury hotels and incomparable hospitality. However, Airbnb is also expected to grow steadily in UAE. The Emirate has a relatively young population with the increased demand for affordable hotels, Airbnb is getting good acceptance and demand is expected to grow.

Table 2. The leading sharing companies (Jesse, 2015)

<b>Company</b>	<b>Shared Asset</b>	<b>Founded</b>	<b>Capital Raised</b>	<b>Estimated Valuation</b>
<b>Lending Club</b>	Cash	2007	\$392 Mil pre IPO	IPO Dec 2014
<b>Airbnb</b>	Housing	2008	\$794 Mil	\$10 Bil
<b>TaskRabbit</b>	Personal Services	2008	\$38 Mil	>\$100 Mil
<b>Uber</b>	Transportation	2009	\$3.3 Bil	\$40 Bil
<b>DogVacay</b>	<u>Dogsitting</u>	2011	\$47 Mil	>\$100 Mil
<b>Lyft</b>	Transportation	2012	\$332 Mil	>\$1 Bil

Table 3. Market players analysis

Recent years, peer-to-peer economy, also called collaborative consumption or sharing economy, companies have exploded as the economy has recovered, demonstrating that the fundamentals of sharing-economy businesses have staying power. Just as the Internet, wireless communications and social networking before it, the sharing economy is here to stay. The sharing economy will be part of the overall economy going forward. Some industries—like taxi services in transportation and B&B rentals in travel—will be completely transformed.



Source: <http://www.ourwindsor.ca/news-story/5445194>

### 3. Airbnb Marketing Initiatives

In 2008, Joe Gebbia and two friends started the business to connect travelers with affordable, memorable, and sometimes unusual rooms by launching AirBedAndBreakfast.com. They named their startup as Airbnb. By selling an experience and facilitating a P2P service, it successfully gained the trust of users on all sides gradually. For its marketing, it took an impressive storytelling approach globally. It also provided content coupled with advice from hosts. They started receiving maps and testimonials from the travelers. They also send an invitation to the readers to share their local knowledge and along with content it also focused on photography. To capture a neighborhood vibe, and even posts their bios with each gallery, the company hired local photographers. It also launched Airbnb's Economic Impact Studies site, where hosts and guests can get more information on Airbnb community's positive impact on cities around the world. However, as Hospitality laws are different in different cities, the company's business model didn't always harmonize with local regulation. It was caught in legal battles about such issues as zoning rules and hotel taxes.

**It tied up with Craigslist, a platform with millions of users looking for accommodations. It will help Airbnb to increase their user base substantially. It gave a quick link with Craigslist.**

**In 2014, Airbnb had expanded to 800,000 room listings in 190 countries and there were 17 million users of Airbnb. Airbnb did a rebranding by introducing a new logo they named Bélo. It also invited people to create their own Bélo logo. The same year, Airbnb partnered with Nest—the home automation company—providing US hosts with free thermostats to install in their homes and apartments.**

To enhance the consumer-brand bond, a company created an infographic and encourage consumer involvement with the Create tool. The visual was posted to the Airbnb blog. It extended its content strategy to Social media like Instagram, Youtube, Twitter, where it embraces visual marketing to attract fans. It started referral URLs to Social networking sites.

It used Google rating, Google Display Advertising, Craigslist, etc. It updated its app to understand the travelers' preferences and then match them with the homes, neighborhoods, and experiences that meet those needs. It really disrupted the travel and hospitality industries. They believed in offering travelers a whole lot more than just a home. To promote it, a global campaign, "Live there", which inspire people to live like a local and have "authentic" holiday experiences. They used TV spots, as well as digital, outdoor and print creative for campaigning. Airbnb can acquire and retain customers with its fast, reliable and secures stay experience.

#### **4. UAE, Airbnb and Its Business Model**

The major driving sector of the UAE economy is a Travel and tourism—or more precisely Dubai. It is a central pillar. Dubai is the 4th most visited city in the world after London, Paris, and Bangkok. (Note 8) According to the Dubai's Department of Tourism and Commerce Marketing, there were a total of 13.2 million international overnight visitors in 2014. (Note 9) According to Business Monitor International forecast, 7.6% are the forecasted year-on-year in tourist arrivals and 9.3% increase in tourism receipts for UAE.

According to the World Economic Forum study, UAE was the most tourist-friendly country in the Middle East followed by Qatar, Bahrain, Morocco and Saudi Arabia. Hence there is the huge demand for a stay in UAE. Airbnb is very positive about the UAE market potential.

Airbnb followed two-sided business models. Airbnb allowed guests to book unique places, customize searches by price, room type, size, different experience, amenities, property type, host language, etc. It offered personalized service to both guests and hosts at various price ranges. It enabled property owners to make extra money on the side and it is reliable and safe. It also provided insurance to listed properties.

Being peer-to-peer accommodation marketplace, Airbnb connected hosts (renters) and travelers via its key website resource. It soon became an online market platform which bridges the gap between users with property to rent and users looking to rent the space. They categorized Users as "Hosts" and "Guests," and they both have to register with Airbnb using a variety of means. When you log on its website, profiles include details such as user reviews and shared social connections to build a reputation and trust among users of the marketplace will be given (Van Grove, 2011). Other elements of the Airbnb profile included user recommendations and a private messaging system (Lanyado, 2011). It is popular with value-seeking families and millennials.

In addition to providing personal information, The provider can give information about price, amenities, house rules, imagery, and detailed information about their neighborhood. It also allows guests and hosts to give reviews, references, and ratings, which are displayed to the public in order to provide an evaluation method.

Except for booking on Airbnb website, the company had also launched its mobile applications for iOS and Android customers. It also launched a version of the Apple Watch (TechCrunch). These applications offer geolocation and much of the functionality of the website, private messaging and so on. However, it has no control over its listed rooms.

Airbnb generated its revenue from two entities by charging a 'service fee' without directly owning any rooms by itself (Choudary, 2016). By bringing “hosts” and “guests” who are willing to share accommodation together, Airbnb takes a 3% from the host and a 6-12% of the guest in exchange for providing the marketplace. It facilitated the such as customer support, payment management and a \$1million insurance policy for hosts (Geron 2013). Guest pays around 15.5% price as a fee based on the revenue and booking numbers on an average. Airbnb serves two, interdependent Customer Segments- the guests (personal and business travelers) on one side and the hosts (residential asset owners) on the pther side.

The new business model has disrupted traditional industries by creating new sources of supply. Security and safety of the accommodation were the only concern. It was not always vetted by Airbnb and are completely left to travelers to choose based on published reviews (Ha, 2012). Unlike traditional hotels, Airbnb flourished by increasing the hosts and travelers and matching them with each other (Choudary, 2014). It allows the full use of a home, with more space, a place to cook and an extremely private atmosphere.

Airbnb grew so rapidly that currently, it has its presence in more than 34,000 cities worldwide. There were 2,000 listed properties in the UAE, mainly in Dubai. (Note 10) In 2015, there was a 93 % increase in the number of listings in the UAE over the last year. (Note 11) Airbnb in Dubai has doubled in popularity over the past year, with twice as many people staying.

With its low pricing strategy model, Airbnb became a threat to many budgeted hotels in UAE where the cost of living is comparatively high. Yousef Wahbah, head of transaction real estate in the Middle East and North Africa talked about room rents, homes offered by Airbnb were in the range from \$20 to over \$2,000 per night, while other hotel room rates were from \$100 to over \$10,000 a night. (Note 12)

The average cost of Airbnb by City



However, Airbnb was never a direct competitor of high-end hotels, the products and consequently the markets served by Airbnb were altogether different. Hotel guests made their choice for hotels for their full serviced concepts, on the other hand Airbnb offers the

self-catering product. However, it competes to a certain extent with hotel apartments and budgeted hotels and If Airbnb continues to grow at its current rate, the dent in budget hotels' takings are projected to be 10% by 2016.

### **5. Partnering and Its Working**

With the Vision to make UAE, the best countries in the world, Dubai Government is focusing on developing the tourism industry and exploring the sharing economy. To give more convenience to the tourist and to ensure that Tourists coming into Dubai will not have to go around hunting for places, the emirate's tourism body teamed up with the global home-sharing firm, Airbnb in May 2016. This will help to increase holiday home listings and a wider range of tourists coming into Dubai. The core aim is to promote "responsible home sharing" and diversifying visitor accommodation in the emirate.

Dubai Tourism also updated its regulations around holiday homes, with the agreement with Airbnb and allowed homeowners to list their properties on the Airbnb website. Marketing and promotional activations for Dubai as a tourism destination were planned to be done jointly.

Prior to this agreement, homeowners who wanted to list their properties had to get an endorsement from Dubai Tourism operator. Now the homeowners can list the properties themselves after registering themselves on the Dubai Holiday Homes website. The main reason for the registration is to ensure certain standards are adhered to, such as cleanliness, services, health, and safety, etc. They just have to get a no objection certificate from their landlords and meet Dubai Tourism specified requirements. The agreement is applicable to tenants too, and they too can sub-lease a space on a short-term basis. Again, to promote responsible sharing of holiday homes, Airbnb has created a "Hosting Page" on its platform, informing hosts of the rules and linking to official information.

The move will allow Airbnb to attract more homeowners and tenants. It will allocate Airbnb to increase the supply of [holiday home] rentals, leading to a reduction in average rental prices. A hotel or hotel apartment brand can differentiate themselves from Airbnb in terms of security and market awareness of a quality, operational, service and safety standards.

According to the industry experts, it is expected that the efforts are going to have a positive effect on the growth of the holiday home sector by providing increased outreach to a global audience, especially those coming from Europe and North America, where services like Airbnb are used more widely.

### **6. Future Outlook**

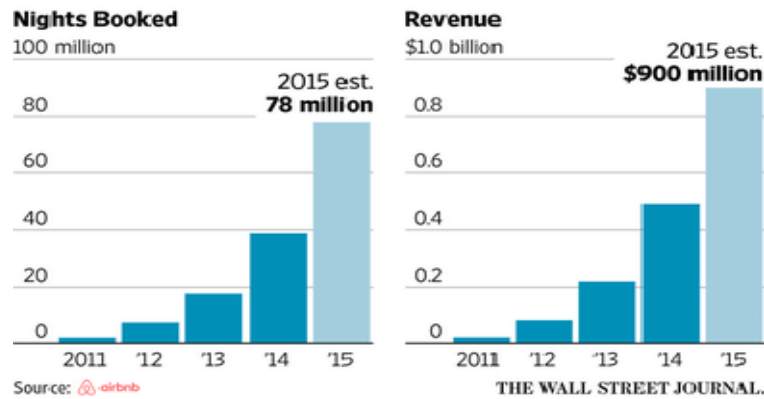
Industry Analysts are having high hope from this Partnering. According to them, demand for homes on Airbnb in Dubai will grow, as the number of tourists in the city increase, which is currently growing at around 10% annually, because of Expo2020. (Note 13)

In 2015 it struggled with operational expenses that were yet covered by the revenues with an operating loss of around \$150 million. (Note 14) To add up, two tech startups Airbnb and Noirebnb were planning to launch temporary lodging services for African Americans in UAE.



Though there is impressive growth in terms of numbers (3500 listings), Airbnb is still a company focused on growth (not on profitability).

Table 4. Airbnb Revenue



Source: <https://www.quora.com/How-much-revenue-is-Airbnb-making>.

Global dominance and fast growth in P2P accommodation which is important in sharing economy, it remains to be seen whether partnering with Dubai Government will give the desired results or not. With three main advantages: price, quality of accommodation and location, can Airbnb replicate its success in the UAE where there are also many concerns and criticisms like safety concern and ethical worries?

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