

# Current Collaborative Economies Business Model Airbnb: Changing the Hospitality Industry

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## Abstract

*This paper focuses on the study of one of the most recent and successful technology-based startups, whose nature is the hospitality industry. Airbnb is part of the model peer to peer of the collaborative economy, which means it is participating in a Community market based on trust the host-guest experience for traveling richer than it would simply stay in a hotel. For the development of this work the research methods will be descriptive and analytical due to the interest of not only explain the origin and strategies that practices the company but also doing an analysis of the tendency of users, both the hosts and guests about their perception of the services offered and whether it will become the preferred way to rent a space. The trends show that the explosive growth since its inception continues to be a trend, as long as the regulations imposed by different governments are met and that trust between users stays strong.*

**Keywords:** Airbnb, disruptive innovation, hospitality industry, hosting entrepreneur, sharing economy. JEL: M13, O31, Z31.

## Introduction

Eight years have passed since two recent graduates of Rhode Island School of Design and an engineer in computer science from Harvard, founded what is today one of the most successful community markets in the world. The business it belongs is not particularly new. However, innovation makes the difference and it is sustained that today is valued above one billion dollars, an amount that puts it in third place in the list of the unicorn companies with 25.5 billion of dollars in Fortune magazine.

Airbnb stems from the philosophy of think of innovative solutions for common problems (Chafkin, 2016) and one of them, a pillar of its *raison d'être*, is accommodation where innovation is to combine this service with confidence based on communitarian economy and which together with the technological bases created this platform that has generated that users obtain large incomes and guests live unique experiences for inclusion in the cultures of the places they visit coupled with competitive prices if is that lower than it is offering the hotel industry.

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This business model is here studied particularly in Mexico and Latin America, to analyze since its inception in 2008 to the present. As data and analysis that are possible to acquire and confirm the tendency of this application, or one of more innovative ways to change. How it has developed customer service on housing issues and as it says the promoter Brian Chesky one of its co-founders, Airbnb is more than just renting an accommodation space (Chafkin, 2016).

On the other hand, the impact it has or may come to have Airbnb and similar platforms is an attention focus for the traditional hotel industry, since it is clear that this trend towards higher position, where users become entrepreneurs in the hospitality only with their resources and creativity. In exercising their resources and who cares about the continuous improvement of the legal loopholes and insecurity that has been manifesting through experience, it is to take into account and provide great economic losses in the future.

## **Background of the Problem**

### **Origin**

It is true that the best ideas come to solve problems accidentally break into everyday life and the birth of Airbnb was no exception. In October of 2007 in the city of San Francisco, California rent skyrocketed beyond measure by 25%, because in the environment reigned on the eve of the economic recession that hit globally in 2008, and among other things, it mention that San Francisco is one of the most expensive cities to live and visit in the United States.

Designers Brian Chesky and Joe Gebbia shared an apartment with the aforementioned events and thought about how to earn extra income to cover the new rent fee. Fortunately the idea did not wait and took advantage that there would be a conference for designers therefore decided to create a platform for attendees to have an alternative cheaper than hotel accommodation. The idea was simple, inflatable mattresses and a roof for the night.

The project started with the name Airbedandbreakfast.com, a website that connected to the hosts and guests; that beginning was something small and not widespread. They hosted three slightly skeptical guests about the service obtaining significant but encouraging gains. They had created what today is an innovative company that not only expanded in San Francisco or the United States, it is present around the world in 191 countries and counting.

### **The First Years**

The design duo was joined by Nathan Blecharczyk, who supported the development of the web platform where they would advertise. However, the lack of capital to expand the business, approached them to the incubator or business accelerator Y-Combinator, providing \$ 20,000 and then to see the success of the company Airbnb Sequoia Capital, owned by Merlo Park, invested 600,000 more (Mendoza, 2014). In the year 2008 they had already achieved moderate success in its model of shared hosting. The Democratic National Convention was held and the project became stronger, the website being re-named in the 2009 as airbnb.com, expanding not only to rent shared rooms, but also, residences or whole departments.

### **Growth and Expansion**

Airbnb's popularity grew and the number of hosts in 2009 increased from 21.000 to 160.000. It is clear that the rise of social networks helped to publicize the company and the positive feedback from guests to reach common places where they could meet and learn from everyday life in their tourist or business trips.

Another aspect that supported the growth and expansion of Airbnb was the change in consumer buying behavior, since that time, Internet users conducted large percentage of their purchases online and it is a trend that continues today. In 2011 and 2012 the records continued to increase exponentially (these data

are later addressed), and were years of great learning by the founders, then, with the growth and success they were getting was imperative to study the best strategies and forms of business for this to take its course.

### **To Date**

Today Airbnb has more than two million sites to rent registered, among them 4,000 are boats, 2,000 are castles, 620 tree houses and 320 private islands (Chafkin, 2016). It has provided hosting service to over 60 million guests. It is present in 191 countries and over 34,000 cities. Within its support services to communities and through the idea of one of their host provides free accommodation in hit areas by natural disasters, in addition to providing insurance damage spaces by bad users, areas has made improvements legal to continue to operate and continue to enter new countries and cities.

### **Problem Delimitation**

Once commented on the benefits of this business model, it is pretended to analyze the problems which faced the company, as strong and competitive as the hotel industry, where perhaps initially did not see coming this phenomenon. It is clear that would have to take action on the matter. And also, it cannot be left behind misuses issues that have faced the hosts and resolve Airbnb to keep its base, which is the user confidence in the aforementioned community economy or sharing economy, regulations of the law on tax payments to the host as it is an informal economy.

In this research it is pretended to study, analyze and explain how a firm is proposed as Airbnb strategies to follow and obtain a competitive and sustainable advantage in the hotel industry, laws and above all, keep having and increased confidence users around the world?

### **Justification**

To explain the problem posed by this research, first is described the main objectives that Airbnb

has as the business: Offers travelers' accommodation, with or without interaction with the host. It can be rented almost all types of properties and depending on the law of the place, can exist or not, a time limit for lodging. The ambiguity with which these services are covered, is due to changes in the laws of the municipalities, for being a fairly new model in the industry, as have arisen problems relating to the payment of taxes, as well as disputes with the hotel sector and breach of trust cases of guests at the properties, vary the rules with which the company develops.

So then, one of the issues to study and analyze is the strategies that has worked and developed Airbnb to continue to exist primarily as a business entity globally, with an emphasis on Mexico, and secondly to continue to obtain the trust of users, since this business model called relationships peer to peer, a trend that is based on a growing international movement changing social, economic and technological form consumer behavior which aims to share goods instead of owning them (Walsh, 2011) are developed.

Unfortunately sometimes can be inconvenient (property damage, poor services, improper or illegal use, etc.) and what has been a competitive advantage for the company as recommendations online before buying the service, which should be negative could be harmful to the company. In this sense, there are alternative platforms or forums, where users discuss and compare their experiences not only with their hosts, but also with the services Airbnb offers.

### **Objectives**

This work aims to analyze the impact that has had this business model of disruptive economics. Also to know what strategies are being implemented for the competitive advantages and if these are held to the various problems the company has had, first from a global point of view and to approach the study later in Mexico. To analyze by the results of indicators of on-line customer satisfaction and

consumer preferences regarding their travel experiences in the main tourist attractions.

### Theoretical and Empirical Review

Bostman & Rogers (2010) (2010) argue that Airbnb is part of a classic model of collaborative economy, being a disruptive innovation (Christensen & Raynor, 2003) that occurs when individuals share common interests and a common philosophy of life. In this case, they aim to rent rooms in shared apartments or whole departments through a social search and management system (Bostman & Rogers, 2010). So the emergence of this phenomenon is possible as the evolution of technology allows imitate the exchanges that usually or used to give face to face, on a larger scale thanks to the internet, together with the ability to create trust between strangers.

Rifkin (2014) points out that the decline in marginal costs, which tends to be near zero, is resulting in a dichotomous economy, partly capitalist market and on the other hand, collaborative commons gradually drawn out a new economic paradigm. Interian, (2016) argues that the sharing economy is credited with reducing transaction costs, increase efficiency and promote accountability and competence. This model does not require a centralized entity that should have an inventory and therefore is free of logistics, costs associated with maintaining inventory, product and geographic expansion for these purposes.

This model by allowing individuals to take advantage of the ability to take advantage of an asset that already possess, collaborative business model eliminates in an efficient and convenient way transaction costs. The specific characteristics of collaborative consumer of tourist accommodation are little known, although generally, it may try to travelers connected and experts, likely to responsible consumption, characterized by a high level of trust in the other members of the community and familiarity with internet and online commerce, demanding about the quality of its tourism experiences, accustomed to link their

destinations of choice and forms of entertainment in a family environment (Russo & Quagliari, 2014).

Despite its purported benefits, companies of collaborative economies have been strongly criticized for the way they operate, and in some cases have been forced to shut down operations. Critics argue that the laws are evading created precisely to regulate certain practices in which their companies are engaged; users sharing platforms become “prosumers” people who consume, like produce (Streitfeld, 2014)

Blurring the line between consumer and producer collaborative economy breaks with the traditional business model that companies own and people consume. On the other hand, the concept of sharing erodes the disinterested public regulation, substituting private regulation or leaving unattended regulated transactions. Because of this, business creation becomes more widespread and may even lead to displace their regulated and established counterparts some time ago. An example of this is Uber, which has become a ubiquitous service in major cities around the world (Interian, 2016). The most important cities in the United States and Europe have begun to implement regulations regarding share house or rent space and have initiated investigations with the goal of bringing the collaborative economy in accordance with existing laws (Chafkin, 2016).

On the other hand, information technologies have facilitated the exchange of user experiences, enabling the comments and product valuation objective and transparent manner. These valuations are perceived in the market as certain and are changing consumer behavior and redefining the role of influence during the buying process by providing more realistic expectations (Caniguel, 2015). That is when the consumer can know the costs and perceived by others who have commented and valued their consumer experiences, which later will help to make a decision with some confidence, even if the consumer never had before contracted this service, reducing significantly benefits the perceived risk (Wen, 2009).

## Hypothesis

Starting from this context, it is an investigation object, analyzing the business, legal, and growth and expansion strategies of Airbnb to determine whether still the explosive range has in recent years and how much impact will have the hotel industry and the behavior of consumer globally and in Mexico.

## Contextual Framework

### How Does Operate Airbnb?

In the first instance, it is created a free account on the site [www.airbnb.com](http://www.airbnb.com) under a personal profile that helps hosts and guests to learn more about the other person. Such profiles when public do not show the full name or the complete contact information because the data are protected. The hosts describe in detail their spaces, including available services and times of departure and arrival, meanwhile guests publish evaluations of their experiences.

The company has groups of hosts and community meetings through online forums and meetings in person. Airbnb groups offer an internet hosts to share stories, views and advice. Services are verified at all times, both profiles hosts and guests; regarding the management of payments, Airbnb charges a 12% to 15% of the total cost of the rate of the host. It supports different currencies and payment methods, the company charges the full amount guests when making the reservation and wait 24 hours after their arrival at accommodation to transfer funds to the host.

Be guest or host, Airbnb offers customer service 24 hours in a help center. Also, there are cancellations or refunds without penalty, as could be: Death of a family member, serious illness host or a family member, disaster natural in the country, political turmoil in the country, property damage, maintenance problems that prevent the host accommodates any guest. Damages to the property are a warranty of up to 800, 000 Euros. However, there are clauses and policies for different situations (Airbnb, 2016).

Based on the above context, there are companies with collaborative economies defined as the interaction between two or more individuals, through digital media or not, that meets a real potential need or to one or more persons (Bostman & Rogers, 2010). Digital platforms provide a framework where users can interact within and between them. Also it selects the role users want at any time and may even have several roles simultaneously. It is an open and dynamic system.

There is usually a method of valuation between users, whereby a reputation is obtained, and with it the confidence to continue to carry out the activity they want. The greater the number of users on platforms will have the more value. Users will have more choice options that will be better evaluated and therefore greater differentiation among them will be exercised.

## Strategies Airbnb

Airbnb founders created a competitive value proposal avoiding a competitive market where they would be at a disadvantage, created strong points regarding competition where the service addressed niche markets; individuals with common interests and a similar profile, netizens, millennials, people interested in living different experiences at lower or competitive pricing and inclusion in local life of the areas visited coupled to an era where change because technologies began to change consumer behavior and continues generating it. According to (Peng, 2010) intangible resources and capabilities are human, innovation and reputation, options that Airbnb took advantage very well.

Within the point of view based on resources to develop an activity with added value, the organization opted for the aspects of the framework VRIO because it adds value to the experience of traveling beyond what hospitality offers. For example, a feeling familiarity, advice received by the host in relation to local life environment, the ability to engage in everyday life, access to utilities of residential use, the amenities offered by each host.

Oddity since it is a relatively new model to perform a common activity, so it generates intrigue and due to the popularity of using this platform, users want to be part of this economic, social and cultural change. It is true that Airbnb has competitors offering similar services, not to mention the traditional hospitality industry. However, it is a leader in the field, so it will make a difference is to keep growing community users to rate positively services and follow opening the world market.

Organization is key since the platform should be increasingly confident and fill the gray areas that may remain in the legal aspect, data control, trust between hosts and users, payments, monitoring and troubleshooting, and not diminishing his reputation among users.

The validation of the business model from the beginning is very important because, despite being a thin line between the informal and formal economy, the first actions of the firm can lead to success or failure of it, having rates established and very clear that is what is offered, not less, because credibility is lost, and if on the other hand, the customer gets more for what he paid and does not involve a significant increase in transaction costs, almost guarantees success of the model.

Another strategic advantage has been part of the costs, since firstly the fixed costs of the host are covered a priori, labor costs are minimal or nonexistent and paying taxes for working in some cities this is no longer so, however, at the beginning that prevailed, transaction costs also tend to zero, since, trading is done on a free platform.

The theory of transaction costs states that the choice of full or partial participation of multinational or joint ventures depends on the conditions and benefits that are shared between them. Alliances of capital between two companies are made to combine products or services. This alliance or organization between two or more companies is efficient when two conditions are known: when the products or services of each of the parties that are playing

in the market is failing or when the acquisition of the assets that produce such goods are more expensive than obtaining use rights through joint business agreement (Hennart, 1988).

Growth and expansion should be at the right time. At the moment the business because of the resources that counted was unable to grow, took up the matter and reinvested profits, obtained credits and support from incubators startups and visionary investors, to improve its platform and enter more cities and countries, moved its headquarters to a more efficient structure, with appropriate spaces for their activities and employed various specialists in business and strategic management. In addition to expanding its target market to focus its strategy to hotels that ran out of rooms available, especially in cities with high tourist demand as San Francisco or New York, reached the most important parts of the world in a short period of time (Teece, Pisano, & Shuen, 1997).

Change when needed. The company in its first years realized that it must modify some of its bases, so that it was scalable and repeatable, so open the door to other people using the same rental system that the founders initially in return a small commission. In addition, it was studied and analyzed the actual service users, concluding that they were people with very specific characteristics. So they diagnosed that while there was growth, this was slow to expectations, reaching the conclusion that the market was much smaller than they had imagined.

Therefore, the founders exploit a political event that could exhaust the hotel rooms in the city: the national convention of the Democratic Party, to launch a marketing campaign. They bought hundreds of packages of cereal, and personalized packaging with the representative of the political party (Obama and McCain) background offered cheap service for those attending the convention but did not have housing accommodation. They managed to sell 500 boxes of cereal at a cost of \$ 40 each. With that amount they got their first injection of self-funding of \$ 20,000. Therein lies the importance of the more creative and targeted

marketing entrepreneur, the more impact (audience, exposure and income).

Investigation and development. In the context of expansion, the (main) founders came with specialists in specific Y-Combinator, venture capital company, to be mentored and trained to develop and organize in a better way the organization, financially and technologically, as well as issues of marketing, makeovers, change of image and style, within them, shortening the name went from airbed and breakfast to Airbnb simply.

Human capital and strategic alliances. After reviewing the business model and strategy based on the orientation of Y-Combinator, enter new investors, the team grows, starting from the 3 founders to 15 members, all with high expertise in software development, management strategic, data mining, and marketing, among others. Focus on the goal that users use the service again, and more often, that is, engage with customers, proving themselves the service and see firsthand, the weaknesses to solve them.

Rating growth limitations, hypothesis and testing. When growth was once again limited, they decided to hypothesize why if technological issues such as access to the platform, payment systems and the formation of a positive reputation, there was something that was generating conflict with the expected growth.

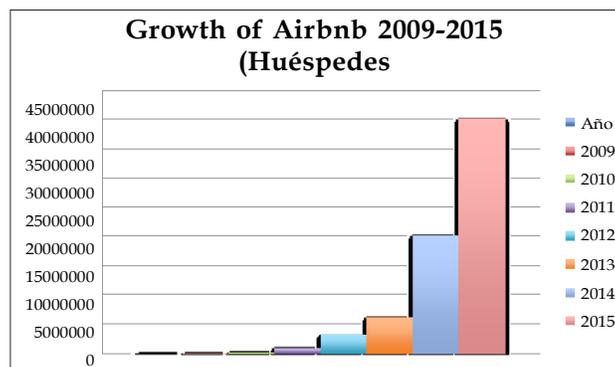
They found that the more professional photographs of the property, the greater the chance of being hired, so they tested this hypothesis in a new city that wanted to enter, New York, where they hired professional photographers for advertising spaces and realized that to show better and professional, property would be leased faster than with precarious photographs.

Solution to legal conflicts. As the company was growing and gaining popularity, the problems began with the hotel industry, cities like San Francisco, New York, Berlin, Toronto, began fining users for violating housing laws, such as the time spent for rent apartment, paying taxes per rental, etc. The strategy of governments pressured by the big chains, was the attack to users, since being so little studied these companies did not exist to the same regulations. However, Airbnb, has taken part of this problem, which in conjunction with the government, have reached agreements to continue operating.

Added value of the firm. One of the competitive advantages that Airbnb holds over its competitors, is to provide a different, unique and intrinsic experience with the community, the use of the services offered by the hosts, not forgetting the amenities that each host can add, there are no limits, since creativity of the services lie in the mind of each one.

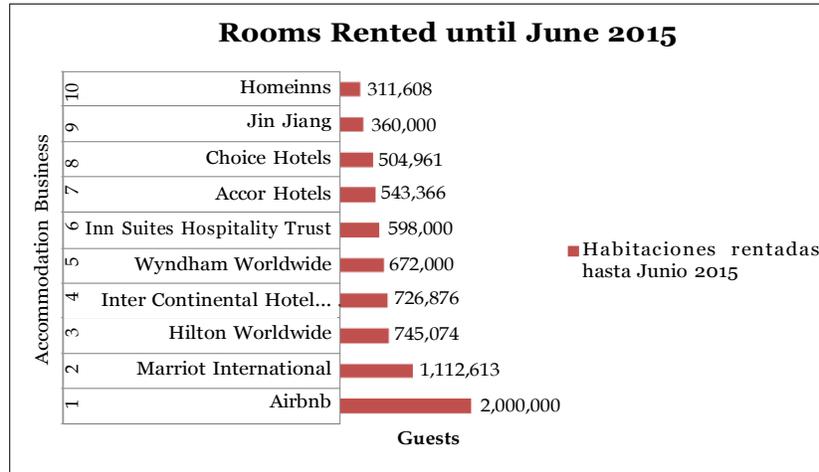
**B. General Data**

**Growth of Airbnb 2009-2015 (Huespedes)**

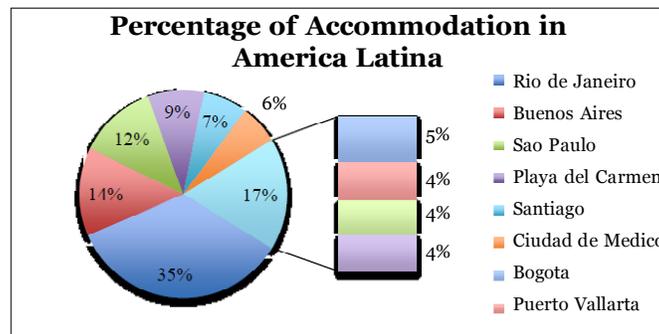


**Figure 1: Growth of Airbnb relative to spaces rented 2009-2015.**

**Source:** Prepared with data of Chafkin (2016).



**Figure 2: Comparison of Airbnb for Major Chain Hotel Industry Until June 2015**  
**Source:** Prepared with data of Chafkin (2016).



**Figure 3: Total Airbnb Accommodation in Latin America**  
**Source:** Prepared with data from Airbnb (2016)

In Latin America the impact of Airbnb until the end of 2015 is approximately 60,000 accommodations.

In Mexico and Latin America, growth of Airbnb has been explosive, since its inception in 2013 had an increase of 400 percent (Mendoza, 2014), a figure that continues to grow year after year. One of the goals of the company is opening more cities, including dedicated to alternative tourism, as called magical towns, colonial cities, business and convention centers and surrounding cities with the country's borders, spaces near large shopping centers.

Another objective of inclusion target market is more Asian cities, which are key to their expectations of inclusion, expansion and growth.

Within the legal framework, cities like New York, San Francisco, Berlin, among others, have already implemented laws, taxes and relevant negotiations for the company to move away from the gray area in which it is informal business, are being studied by the various governments to take them as a model and perform the same.

Thus it appears that the company must carry out internationalization processes to exploit opportunities that have not previously been (Peng, 2010), have efficient distribution channels (web platform), however, innovate and create products, in this case, the travel experience, is sustained competitive advantage of the company (Vargas-Hernandez, 2014).

## Methods

The methods used in this research are analytical and descriptive, because the main objective is to give a theoretical framework on the origins of the company, processes, market opening, and growth, and impact, expansion, in addition to the strategies it has used in different countries due to legal and cultural differences.

## Analysis of Results

With regard to the reviewed literature and research presented in this paper, it can be said that even in a competitive market, it can be found a gap, a need or a service to offer. The key lies in identifying a niche market which offer within the same segment, an innovation that generates consumer trends, the use of a technology accessible to millions, yet safe and effective to achieve something primordial in companies of collaborative economies and consumer confidence. As a result, these companies called disruptive innovation, since it breaks with the established paradigms.

It is necessary for the main, that once the business is established and has the market acceptance, it focuses on how to devise and implement appropriate strategies and at the right time of growth and expansion, investment, adding partners, hiring specialized human capital and continuous study of the tastes and preferences of consumers to reach a stage of stabilization, market positioning and transcendence.

To Airbnb going to be a challenge to meet the own regulations of each city, let alone in each country, solving timely and efficiently the problems between host and guest, remain the leader in the group of competitors in which it is and mainly the users continue to adhere to its network and maintain confidence in which it is based. However, positive bode years have revolutionized an industry difficult to access, changed the behavior of millions of travelers and why it is not possible to continue breaking schemes in the not too distant future. It is an

enterprise worthy of interest being followed closely by scholars of strategic management.

## Conclusion

The impact that the company has had since its first operations has been transgressive, innovative, original and upward trend in the hospitality market. One of the most important benefits is to generate revenue through property hosts that they already have and own, as are their properties without having to invest practically for it. It is clear, that is one of the purposes of this type of business model, therefore, this upward trend is very likely, but almost certainly prevail in the market.

It is therefore necessary that the owners continue informing and implementing the necessary measures to continue to operate and do not damage the reputation and confidence that has been built and which has had widespread success in countries and cities where regulations are present. Further, it is necessary research to consumers to be part of the changes and innovations in relation to their preferences in order to remain the leaders with the strength of their sustained competitive advantages that have argued.

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