Airbnb Business Model

Idea In Short

In a nutshell, Airbnb is a marketplace that allows owners of space to rent to find people who need a place to stay. By commoditizing trust between property owners and short-term renters, Airbnb has become one of the most recognized companies in the hospitality industry. If you like to travel, you've certainly heard of or used Airbnb's services. However, when the company was founded, back in 2008, it was just a simple idea from two friends who needed money to pay their own rent. They put together three air mattresses and put them up for rent. And then, they realized that the idea could go much further than that. Currently, Airbnb is a fully digital platform, which operates via app and website only. There is no face-to-face service, there is no physical space where you need to go. And, Airbnb does not own any property itself. It only makes it possible to connect people who have something to offer with others who are interested in what they are offering. In a simple comparison, just like Uber provides over 1 million rides a day without owning a single car, Airbnb makes almost 80,000 reservations a day, without having a single room of its own. Check out how the Airbnb business model works.

According to its own website, Airbnb:

> connects people with places to stay and things to do around the world. The community is powered by hosts, who provide their guests with the unique opportunity to travel like a local

At the core, it is a marketplace that customers can access via the app or website. The app connects travelers and hosts i.e., people who have extra space or underutilized property can earn extra income by renting them. People who need accommodation can rent these spaces directly with the owners. Airbnb guarantees a lower price than those of hotels or real estate that are listed in an agency website. Sometimes, guests can interact with the owners, thereby bringing them closer to the local culture.

History

Airbnb was born due to its founders' necessity for extra money. Brian Chesky and Joe Gebbia were housemates and were having difficulties paying their rent. At the time, an industrial design conference was happening in San Francisco and all the hotels were fully booked. So, they gathered three air mattresses and offered beds and breakfast for designers looking for a room for the conference. To advertise their offer, they created a website: airbedandbreakfast.com. After that, they called Nathan Blecharczyk — Gebbia's former housemate and computer science graduate, to build a more complete platform for home-sharing among users. The website was ready in 2008 when Denver was going to host the Democratic National Convention.

Targeting the area, they had hundreds of listings. Believing in their idea, the founders wanted to raise money for the brand-new company. With the American election, they created custom-made Obama-O's and Cap'n Mccain's cereal boxes and, with that, they were able to raise $30,000. The venture capitalists began noticing and investing in their startup. In March 2009, the company changed its name to Airbnb. It didn't take long for the company to grow exponentially towards profit. In 2014, the startup added Airbnb Experiences to the platform, where people can organize tours, sightseeing trips, cook, eat, have classes, and pursue other activities.

How Airbnb works

1. The hosts include all information about the space they are offering for rent — including the asking price — in the Airbnb app
2. If available, Airbnb sends a photographer to the location to shoot high-quality photos of the place
3. The traveler finds the offer (features, price range, etc.) via searching through the app
4. Then, they make the reservation via the app, without having to contact the host
5. The traveler pays Airbnb, including the transaction fees
6. The host then accepts or rejects the offer
7. When the host accepts the offer, the traveler can use the rented space
8. Airbnb settles the rent, minus its commission with the host
9. Finally, both host and traveler can rate their experience and write reviews about it

Airbnb is present in more than 190 countries, with more than 650,000 hosts and around 30 million reservations per year.

Ownership

The three Airbnb co-founders are still the owners of the company. While Brian Chesky is the CEO, Joe Gebbia is the CPO, and the third co-founder, Nathan Blecharczyk, has the position of CSO.

Mission Statement

> Airbnb's mission is to create a world where anyone can belong anywhere, and we are focused on creating an end-to-end travel platform that will handle every part of your trip.

business model

The Airbnb business model is an example of the sharing economy, so much so that the company itself considers it a community built on sharing. The sharing economy industry allows people to add value to assets that are idle or underused. In that case, to their accommodation spaces.

Airbnb's revenue comes from two main sources:

- **Commission from Hosts:** This fee varies from 3 to 5% of the amount charged for the rent. The host can list their properties for free and, with each booking, Airbnb deducts its commission. For hosts offering experiences (events and activities), the commission is 20%
- **Fees from Guests:** Airbnb charges 0% to 20% of the booking amount as transaction fees. This charge is also made with each reservation and varies according to the courses involved. To end this up, it's worth saying that, considering Uber for short-term rentals, Airbnb is currently a multimillion-dollar company and, while there are several competitors on the market, none are even close to taking its lead.

Customer Segments

There are two customer segments that define the Airbnb business model. They are:

- **Hosts**: The people who have spaces available for rent and want to make money from that. In the app, they can include their properties under certain conditions, such as available period, check-in and out times, and other rules. They can also accept or reject the requested reservations and review their guests later
- **Guests**: The people who are looking for a place to stay. They can search by location, type of property, price, and other filters that the app offers. They book and pay through Airbnb

Value Proposition

Airbnb's value propositions are different for each segment:

- **For Hosts**: The value proposition here is the ability to make money by offering unused space through the platform, which offers comfort, safely, total control over the bookings, and insurance against damage and accidents. It also offers the hosts the ability to review the profiles of users requesting reservations, and if unacceptable, even decline the offer. Airbnb offers 24/7 support via phone, email and chat for both, hosts and guests
- **For Guests**: The value proposition here is savings on rent. In addition, guests find the convenience of choosing a place that matches all their preferences — simply through an app without the hassles of negotiating with anyone — compelling and easy. Furthermore, guests can check the hosts' profile and, in some cases, exchange experiences with them during the stay. Finally, all transactions are handled by Airbnb, so the guests enjoy the payment security that Airbnb — as a platform — provides.

Channels

Airbnb's primary channels are their website and the app. In addition, the company uses social media, digital marketing, and affiliate models to reach its audience. Importantly, it substantially benefits from word of mouth recommendations from both, hosts and guests.

Customer Relationships

Airbnb maintains a healthy and consistently positive Net Promoter Score [NPS], recently tracking around 22 — 38, reflecting a strong base of loyal, recommending customers. The company heavily utilizes this metric, as higher NPS scores directly correlate with increased customer re-bookings and referrals. Airbnb's customer relationship is based on a high level of trust in transactions carried out through the marketplace.

Consequently, the company strictly monitors communication between hosts and guests to protect its reputation. Any lapse in service consistency provides an immediate opening for competitors to capture market share. To mitigate this, Airbnb actively resolves conflicts, filters platform misuse, and enforces rigorous data privacy standards. Its most effective retention tools include a high-frictionless interface, precision-driven personalized recommendations, and 24/7 customer support.

Revenue Streams

Airbnb functions as a two-sided marketplace, generating revenue by collecting service fees from both, hosts and guests for every successful booking. While Airbnb provides the digital infrastructure and global reach, the operational weight rests heavily on the hosts. These individuals manage the tangible aspects of the business, including property acquisition or leasing, guest communications, and the physical maintenance and turnover of the space.

This model allows Airbnb to remain asset-light; unlike traditional hotel chains, the company does not own the real estate it lists. Instead, it serves as a sophisticated intermediary that facilitates short-term rentals at pre-agreed price points. For travelers, this provides a diverse inventory ranging from budget-friendly rooms to luxury estates, often serving as a more flexible and cost-effective alternative to the rigid pricing and standardized environments of the traditional hospitality industry.

- **The "Asset-Light" Advantage:** By offloading the costs of maintenance, utilities, and property taxes to the host, Airbnb can scale globally with minimal capital expenditure compared to competitors like Marriott or Hilton
- **Risk Shifting:** While hosts retain the majority of the profit per stay, they also absorb the risks of property damage or market fluctuations, though Airbnb’s "AirCover" aims to mitigate these concerns to maintain host retention
- **Pricing Elasticity:** Because hosts can adjust prices in real-time based on local events or personal needs, Airbnb's inventory often reacts more fluidly to supply and

demand than traditional hotels.

Split-fee

This is the most popular fee structure. A service fee is deducted from the host payout, and visitors also pay a service fee.

- **Host service fee**: The majority of hosts pay a 3% service fee. This charge is derived from the booking subtotal (the nightly rate plus cleaning fee and additional guest fee, if necessary, but excluding Airbnb fees and taxes) and automatically deducted from the host payout
- **Guest service fee**: The majority of guests pay a service fee of less than 14.2% of the booking subtotal (the nightly rate plus cleaning fee and additional guest fee, if applicable, but excluding Airbnb fees and taxes). The fee varies depending on a number of booking considerations and is shown to visitors before they book a reservation and during checkout

Host-only fee

The entire service fee is deducted from the host payout, and guests pay no Airbnb service fee. The host-only fee, which is mandatory for hotels and some other hosts, usually varies from 14-16%. It is also required for software-connected hosts unless the majority of their listings are located in the United States, Canada, the Bahamas, Mexico, Argentina, Taiwan, or Uruguay. Airbnb Plus hosts and hosts with Super Strict cancellation policies can be charged a higher fee. The service charge charged by hosts for listings in Mainland China is 10%. According to Airbnb, hosts are charged a 20% service fee for experiences to help cover the costs of the products, services, and support it provides, including maintaining liability insurance for most experiences, unless otherwise agreed to by the host and Airbnb.

Profitability for Hosts

An Airbnb rental that is fully booked could be more lucrative than renting the same property to a long-term single tenant. This is because hosts can normally charge more on a nightly basis. According to a low-interest lender, Airbnb hosts make an average of $924 per month. Of course, hosts' income will vary greatly depending on where the property is located, how often they rent out their property room, the condition of the property, and the services they provide. Airbnb and other short-term rental sites can be extremely profitable, particularly if

hosts are diligent and willing to put in the effort to attract and retain renters. However, the running costs would almost certainly be higher than those of a conventional rental house, and restrictions have made investing in Airbnb difficult, if not illegal, in many areas. Hence, hosts are advised to do their research before they explore Airbnb as a renting option, for example, using the prorated rent calculator from omnicalculator. Guests could, likewise, educate themselves on the fair rental price to negotiate with the hosts, if they so choose. For hosts, the traditional route — renting the property to single tenant — offers stability and simpler math. However, if they choose this long-term route, they swap the dynamic nightly rates for monthly leases, where a prorated rent calculator could help calculate mid-month move-ins and set prices that are profitable.

Key Resources

Among Airbnb's key resources are the platform and mobile app, the content generated by the partners — both, the properties and assessments [reviews], its human resources, and its algorithm.

Key Activities

Undoubtedly, Airbnb's main key activity is the development and maintenance of the platform itself, where all the experience takes place. Other key activities include sales and marketing for acquiring new hosts and guests, information security for all partners and users, and customer service (on both sides), including conflict intermediation.

Key Partners

Certainly, Airbnb's biggest key partners are its hosts, which can be private owners, hotels, and inns, for example. If there were no people interested in listing their rooms and properties in the app, the platform has no reason to exist. Other partners include professional photographers, who provide their services for the platform, insurance companies that secure the rental properties, as well as investors, who have made it possible to build the entire Airbnb infrastructure.

Cost Structure

Airbnb's cost structure includes investment in all of its key activities and resources, as well

as its channels, which are:

- software development and maintenance
- sales and marketing
- employee salaries
- customer acquisition costs
- insurance
- credit card fees
- legal fees, and
- administrative costs

Competitors

- **Vrbo**: This veteran in the industry — it was founded in 1995 — focuses on unique accommodations, like beach houses, condos, cabins, villas, boats, and castles. It attracts around 16 million unique visitors per month
- **Booking.com**: This large online travel agency lists more than 6 million private homes and apartments, besides hotel accommodations. The website receives over 100 million visits a month
- **HomeToGo**: This aggregator gathers lists from over 600 websites, summing up to more than 18 million offers in over 200 countries. Based in Berlin, the startup acquired Tripping.com to build a strong presence in the American industry
- **Google**: Partnered with online travel agencies and managers, Google has been increasing its presence in the accommodations market, including vacation rentals in Google Maps also. The lists on Google may be gotten by Google's millions of users — free of charge
- **Holidu**: This is another German aggregator, like HomeToGo, but based in Munich. The website receives more than 11 million visits per month and offers over 15 million options. It is popular among Europeans, especially German-speaking ones
- **Tripadvisor**: The world's largest review site, this online travel agency is accessed by 490 million travelers every month. Founded in 2000, it has over 800 million reviews for accommodations, restaurants, attractions, and more
- **Expedia**: In this online travel agency, visitors can book accommodation, flights, rental cars, and activities. It focuses on guests who don't want to spend a lot of time researching the best deals
- **Trip.com**: It is the number one online travel agency in China and parents several

other brands, like Skyscanner, for example. It offers 1.2 million rentals, in 200 countries, and has over 400 million users worldwide

- **TUI Villas**: Part of TUI Group, the largest travel and tourism company in the world. It lists about 300,000 properties, which will also appear on more than 1,000 other platforms
- **misterb&b**: The largest gay accommodation brand on the planet, with over 250,000 hosts in more than 135 countries. Only gay-friendly hosts can list on the platform
- **Plum Guide**: This luxury vacation rental website is carefully curated and accepts only about 3% of the received applications, in order to ensure only homes of the finest quality
- **Glamping Hub**: It is the leader for online-booking luxury camping and outdoor accommodation, with more than 30,00 rentals like treehouses, huts, and tiny houses. It targets, of course, a niche audience of nature and outdoors lovers.

SWOT Analysis

Below, there is a detailed swot analysis of Airbnb:

Strengths

- **Brand**: It is the most recognized name in the vacation rental industry. To find an Airbnb means to find alternative lodging for your next vacation
- **Leadership**: The company is the leader for travelers looking for the best deal that doesn't want to be tied to a hotel reservation in a standardized room
- **Price**: Booking an Airbnb is usually cheaper than a hotel room because the hosts normally don't have as many costs as a hotel
- **Variety**: Hosts can list available rooms anywhere in the world, with no geographic limitations
- **Experience**: With Airbnb, the experience is part of the journey. While hotels offer the same kind of experience, Airbnb provides unique spaces that are more than just a place to sleep
- **Executive team**: The three founders are part of the leadership team, ensuring Airbnb its original vision and business model
- **Public company**: Airbnb went public in December 2020, giving it access to capital from public markets for investments, and ensuring credibility and enhanced public image

- **Margins**: The costs are carried by the hosts, enabling the platform to invest profits in marketing and operations.

Weaknesses

- **Regulations**: As there are few regulations regarding homestays, Airbnb was able to expand rapidly, but now some issues are rising and some of those can be pretty strict
- **Quality contro**l: The accommodation can be anywhere, but with no standards, such as the ones that hotels need to follow
- **Imitators**: The simplicity of the business makes it easier for new entrants to open a similar platform
- **Marketing strategy**: It is not cohesive, since it has to appeal to both hosts and travelers, from different places all over the world
- **SEO**: Airbnb will only appear in top search engine results if Airbnb is searched directly.

Opportunities

- **Experience**: Airbnb focuses on selling more than just a place to stay, and appealing to the uniqueness of the experience is essential for Airbnb's businesses
- **Business expansion**: Airbnb may offer long-term rentals to meet this demand, besides traditional vacation stays
- **Global expansion**: It can still expand to some markets, especially emerging ones
- **Marketing campaigns**: Airbnb could engage in marketing campaigns targeting niches of travelers, creating an idea of exclusivity.

Threats

- **Legal framework**: Local and state governments keep changing laws and regulations regarding rentals, which can turn into a potential threat to business
- **Competition**: As seen above, the list is notable, from direct competitors as much as from hotels and aggregators
- **Lawsuits**: Airbnb has faced — and surely still will — lawsuits from hots and travelers, due to its policies, fees (lack of) standards, variety of spaces and locations, etc.

Challenges today

The Airbnb company has overcome many obstacles in growing from a start-up to one of the largest accommodations booking platforms in the world. One challenge is that hosts have to match their homes with the right guests. Since a hotel chain does not control them, hosts could network with whomever they want and not be regulated in how they showcase their properties or what amenities they offer their guests. To overcome this challenge, Airbnb offers registered hosts incentives such as free nights and increased rankings for booking more bookings per month. Airbnb also provides hosts with tools to manage and promote their properties, such as maps and reviews.

Another major challenge the company faces is that of complaints. In order to provide equal experiences for guests and hosts, Airbnb requires a host to be of good standing, be at least 21 years old, have the right amount of bedrooms or places to sleep, and the bathroom or kitchen to use. Airbnb then gives hosts a ‘badge' on their profiles depending on how many complaints they have received. This is to protect themselves from lawsuits in case a guest gets injured or has their belongings stolen. They have also increased the number of support staff they provide to each destination to answer questions and provide assistance. Airbnb provides a platform for hosts and travelers to connect, but they cannot control how property owners treat their guests.

Airbnb guests rate hosts and vice versa, so if one person treats the other disrespectfully, it will show on their respective profiles. This is also to protect themselves from lawsuits. However, a major issue for Airbnb is that they do not have control over the properties that are on their website. They do not inspect the property or its contents, which means they cannot guarantee the safety of the travelers in each accommodation. They rely on hosts to maintain their property up to Airbnb standards and comply with local laws. Airbnb cannot afford to inspect every property, so they have taken precautions by excluding some properties from listing on their website due to poor quality or safety issues. The company also faces the issue of ghosting. This occurs when homeowners do not show up for their booking with the guest. In order to combat this, Airbnb offers travelers a full refund for cancellations within two days of booking and offers to assist guests who have been ghosted.

Airbnb has also created emotional support features on their apps for lonely or feel unsafe travelers. Airbnb has successfully grown from a small start-up into one of the largest

accommodations booking platforms in the world. They have overcome many obstacles, but with that comes the responsibility to future-proof their business and ensure its future sustainability.

Summary

Airbnb's business model is mainly focused on the intermediation of a property that someone owns, to another person that wishes to rent it for a short period. Airbnb offers a place for the property owners to make it available for people to find it. It's also built on trust, as both owners and renters need to review the stay, for other people to analyze if it's a recommended place for them to stay or not.