



AIRBNB

The combination of an Aerobed and the Internet has now made everybody into an innkeeper.
--Eric Schonfeld, *TechCrunch*

Brian Chesky and Joe Gebbia were nothing if not creative. Two years after graduating from the Rhode Island School of Design in 2005, the friends moved to San Francisco where they shared a three-bedroom apartment in the trendy South of Market neighborhood. When a major design conference came to town in the fall of 2007, the aspiring entrepreneurs recognized an opportunity to earn a little extra rent money. Hotel rooms were filling quickly, rates were steep, and they had room in their own apartment to host guests. Reasoning that a soft place to land and a roof overhead was all they themselves needed for a good night's sleep, the pair built a rudimentary website using blog software advertising an air bed and a hot breakfast for \$80 per night (see **Exhibit 1**). Assuming they would attract recent college graduates on a tight budget, the friends were surprised at the response. Gebbia recalled, "We had a 38-year old female who worked at Razorfish. And then an industrial designer from Salt Lake City who was even older. They slept on air mattresses *on our kitchen floor*."¹ Add in a design researcher from India and Gebbia explained, "They broke every assumption we ever made about who would stay on an air bed at a stranger's house."² This realization, together with a fun and memorable experience getting to know their guests, spurred the friends to think that their initial scheme to earn some extra cash might have the makings of a real business.

As the pair began to dig into the logistics of developing their idea, they looped in Nathan Blecharczyk, a previous roommate of Joe's and a software whiz. Nate, the lead developer at a small San Francisco startup at the time, agreed to work on the technical backend of the "Airbed

¹ Danielle Sacks, "The Sharing Economy," *Fast Company*, April 18, 2011, <http://www.fastcompany.com/1747551/sharing-economy> (February 20, 2013).

² *Ibid.*

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Sara Rosenthal (MBA '04) and Andrew Rachleff, Lecturer in Strategic Management, prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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and Breakfast” website as a side project in his spare time. The threesome began to search for an upcoming event which would draw a large number of attendees seeking accommodations to use as a testing ground for scaling up their concept. (See **Exhibit 2** for cofounders’ bios.)

SOUTH BY SOUTHWEST

South by Southwest (SXSW), held in Austin, Texas, every March, was one of the largest music and film festivals in the country with over 150,000 attendees. The Airbed and Breakfast cofounders identified the 2008 event as the perfect opportunity to connect festival goers with local residents willing to offer a bed (blow up or otherwise) for a reasonable price. Like the San Francisco design conference, SXSW would establish a connection and sense of trust between guests and hosts through the shared experience of the festival.

As the cofounders strategized how to reach their target audience—hosts willing to rent space in their homes and festival attendees seeking lodging—they first looked to the festival website, the hub for all event-related information, from music venues and transportation options to ticket sales and restaurant recommendations. Included on the website was a link to local hotels, which the Airbed and Breakfast team saw as the perfect vehicle to push traffic to their site. When Gebbia contacted the event organizers to suggest adding Airbed and Breakfast to SXSW’s lodging lineup, he received a quick “No.” The festival’s event team did not want to jeopardize the relationships they had already established with dozens of local hotels offering bulk discounts by offering a competing option. If the Airbed and Breakfast team wanted to be included in the festival lodging lineup, they could arrange for a meeting with the event organizers a few months after the upcoming festival to begin discussions for the subsequent year.

Disappointed at the outcome but determined to move on, the team launched the second iteration of the Airbed and Breakfast website two weeks prior to the festival, relying on local blogs and a variety of social media sites to advertise their service. The site provided a list, similar to Craigslist’s apartment postings, of the 80 lodging options they had amassed (see **Exhibit 3**). Each listing provided a brief description of the accommodation (e.g., air bed on the living room floor, queen bed in a guest room, couch in a trailer, etc.), the nightly rate, and the owner’s contact information so the guest could call or email the host directly to make arrangements. Chesky found his own festival accommodations through the site and was pleased to arrive at a conveniently located, nicely furnished house owned by a 30-something couple, Jim and Nancy. After exchanging niceties, Jim asked Chesky for the \$240 they had agreed upon for his three-night stay. Somewhat embarrassed, Chesky admitted he had forgotten to get cash but promised he would pay the following day. When Chesky returned to the house the next evening, Jim pleasantly asked for the money and Chesky realized that, once again, he had forgotten to withdraw cash. The previously amicable host/guest relationship quickly turned tense as Jim grew skeptical about his guest’s willingness and ability to pay (Chesky did pay his host the next morning), and Chesky took note that building a pre-payment mechanism would be one of the team’s first order of business upon his return to San Francisco.

A Better Way to Stay

Despite Chesky’s awkward experience, the cofounders received generally positive feedback after the event. They had connected half a dozen festival goers with accommodations, and a number

of fans of the concept had subsequently asked if they could make similar arrangements for upcoming business and pleasure travel. The team had assumed that an event would be needed to build the trust required to let a stranger stay in someone else's home, but otherwise there was no harm in allowing non-event related listings on the site, particularly as they worked out the kinks of the event-based model. The SXSW experience had brought several key issues to light, among the most glaring being that once the event was over, the inventory was essentially worthless. The team would have to generate a new pool of inventory with each new event as dates, venues, and circumstances changed. There were also few events throughout the year of comparable size and scale to SXSW, meaning they would have to gather (and re-build) inventory for hundreds of smaller events to build a business of any meaningful size.

The SXSW experience shed light on a number of ways in which the team could improve the user experience as well. One of the first actions the cofounders took after the festival was to establish a partnership with PayPal to allow guests to pre-pay for their stay with a credit card, eliminating the hassle and logistics of a face-to-face transaction. Enabling an online payment mechanism not only streamlined the user experience, but protected against possible "Craigslist scams" where a scammer would advertise and receive payment for a property that did not exist. Photographs were added to the catalog of listings, allowing site visitors to view a snapshot of the place they would stay. A user who found a listing he liked in New York, for example, would be taken to a page with three equally sized images: a photo of the interior of the home or condo, a photo of the host, and a map of the accommodation (see **Exhibit 4**). The team created a mechanism which enabled users to book space in someone's house similar to the process of reserving a hotel room online, so the entire transaction could take place without need for multiple back-and-forth calls or emails. Finally, the team added a "Reviews" feature where guests could provide a description of their accommodation, host(s), and overall experience as a reference to other guests seeking lodging.

AIRBED AND BREAKFAST LAUNCHES

Chesky, Gebbia, and Blecharczyk officially launched Airbed and Breakfast with its new and improved website in August 2008. The threesome had high hopes for their idea, though Blecharczyk and Gebbia continued to work on their own side projects to keep money flowing while their start-up gained traction. Airbed and Breakfast's "coming out" was publicized by a variety of media outlets, including *The Wall Street Journal* and *Tech Crunch* which explained, "The combination of the Aerobed and the Internet has now made everybody into an innkeeper."³ This version of Airbed and Breakfast was marketed to business travelers and conference goers seeking a more affordable alternative to hotels, and the team set its sights on the Democratic National Convention (DNC) at the end of August as the next big opportunity.

Democratic National Convention

³ Erick Schonfeld, "Airbed and Breakfast Takes Pad Crashing to a Whole New Level," August 11, 2008, <http://techcrunch.com/2008/08/11/airbed-and-breakfast-takes-pad-crashing-to-a-whole-new-level/> (February 25, 2013).

The DNC was scheduled to take place in Denver over four days at the end of August, and was expected to attract 75,000 attendees to the city.⁴ Airbed and Breakfast advertised its service via local media outlets, bloggers, Twitter, and Facebook, garnering mentions in the local, state, national, and even international media. DNC delegates had access to 900 lodging options through the Airbed and Breakfast website, which were set at prices ranging from \$20 per night for an airbed to \$3,000 for an entire house.⁵ Most, though not all, listings included a photo of the host and the accommodation, along with a brief description. If a person found a listing s/he liked, s/he would click a “Book It” button, and then enter her/his contact and payment details. The host would be notified and given the opportunity to accept or decline the reservation request within 24 hours. If the host accepted, the guest would be charged for the accommodation. The company charged the guest a service fee of 6 to 12 percent for a booked reservation, and the host a 3 percent commission fee. For example, if a property was listed at \$100 per night, the guest would pay \$112, the host would receive \$97, and Airbed and Breakfast would receive \$15 (\$12 from the guest and \$3 from the host).

The Airbed and Breakfast site booked 50 accepted reservations during the convention, validating the cofounders’ growing belief that a highly functioning marketplace for home-based lodging was viable. However, after the convention, the team once again found themselves with a heap of inventory that no longer had value, particularly in a town like Denver which was not considered a hot spot destination. As Blecharczyk and his partners evaluated their position, he recalled thinking, “We are back to square one in terms of how to attract customers.”⁶

Now that “the crickets were chirping” and their next big event, the presidential inauguration, was three months away, the threesome began to brainstorm strategies to get the Airbed and Breakfast name out in the media and in front of potential customers once again. In a play on the “breakfast” in Airbed and Breakfast, Chesky and Blecharczyk put their creativity and design skills (as well as those of a number of others whom they convinced to help out) to work, creating 500 beautifully designed cereal boxes in two different styles, “Obama O’s” and “Cap’n McCain’s.” The first 100 of these were mailed directly to political reporters around the country who were intensely focused on the upcoming election (see **Exhibit 5**). The unique and playful advertising ploy generated much publicity for the cereal boxes (which were sold on the website, netting \$30,000 in revenue), but less so for the company as a provider of accommodations. Nonetheless, the threesome could only hope that their strong relationship with political reporters and the upcoming inauguration in January would help push customer acquisition to a tipping point that would result in sustained business growth.

WAKE UP AND SMELL THE COFFEE

From September through December 2008, Airbed and Breakfast’s revenue had been flat at approximately \$200 per week, and Blecharczyk admitted that the three friends looked at the state

⁴ “Obama Launches Historic Campaign,” BBC News, August 29, 2008, <http://news.bbc.co.uk/2/hi/americas/7586375.stm> (February 25, 2013).

⁵ Schonfeld, loc. cit.

⁶ Interview with Nathan Blecharczyk, January 9, 2013. All subsequent quotations are from this interview unless otherwise noted.

of the company and asked whether it was time to give up. However, the inauguration in January 2009 was rapidly approaching, and was anticipated to draw 2 to 5 million visitors to the Washington D.C. area. Hotel rooms had been sold out months in advance, offering the perfect opportunity for a much-needed infusion of cash and customers. Through the Airbed and Breakfast-sponsored website, www.crashtheinauguration.com, people could secure lodging ranging from \$10 for a couch in Silver Springs, Maryland, to a few thousand dollars to rent an apartment in the heart of D.C.⁷ As with previous events, the cofounders were able to generate publicity through local media and blogging sites, ultimately posting over 1,000 listings on the site and successfully booking about 150 reservations.

Despite their success at the inauguration, the company was not able to sustain its momentum (see **Exhibit 6**). The inventory they had generated to date retained little value once the artificial driver of demand (the event) was gone. With a final bit of resolve, they decided that if this company truly had a chance to succeed, they would need to put their heads down, stop work on any unrelated projects, and dedicate 100 percent of their time to the effort over the next six months. On the advice of a mentor at the time, they applied to and were accepted to Y-Combinator, a start-up incubator which provided seed funding, access to investors, and mentoring to help start-up teams refine and launch their idea. Blecharczyk had moved to Boston earlier in the year to be with his girlfriend (soon-to-be fiancée), but he packed up his belongings and moved back to San Francisco so that the team could be in one location for this next, and possibly final, push.

Y-Combinator

With the inauguration over, the team looked forward to the 13-week Y-Combinator experience as an opportunity to evaluate the business and develop a strategy to jump start its growth. The program began in January 2009, and one of the very first things they did was change the company's name to Airbnb, a catchy play on the original. They also met with Paul Graham, one of Y-Combinator's cofounders and a well-known investor, technologist, and entrepreneur. Among Graham's first questions was, "Where are your users?" The team's response: "Everywhere." The organic nature of customer acquisition meant that the company had one or two users in a multitude of cities around the world, though a few dozen listings were concentrated in New York City. Based on Graham's belief that sometimes it was necessary to "do things that don't scale," he advised the threesome to fly to New York to meet with users and in doing so, perhaps find answers to what would drive sustained engagement and growth.

More is More or Less is More?

As Chesky, Gebbia, and Blecharczyk evaluated the state of the company in preparation for their trip to New York, one thing was undeniably clear—their current model was flawed. Despite three successful events over the past year—South by Southwest, the Democratic National Convention, and the presidential inauguration—they could not achieve enough post-event momentum to keep the company in business. General travel-related listings, on the other hand,

⁷ Jayne Clark and Laura Bly, "Start your campaign ASAP to be in D.C. for the inauguration," November 11, 2008, USA Today, http://usatoday30.usatoday.com/travel/destinations/2008-11-20-inauguration_N.htm (March 4, 2013).

had grown steadily over the last few months, indicating an opportunity to build inventory in this sector and perhaps expand offerings beyond space in someone's home to vacation rentals, houses, and apartments. What was not yet clear was whether they should continue accumulating inventory through organic, if somewhat scattered, growth, or undertake a more methodical, city-by-city approach, starting with a popular tourist destination like New York, for example, before moving on to Boston, Chicago, or San Francisco. They also considered their target audience—they had heard from numerous people that there still existed a level of discomfort with the concept of hosting or bunking up with a stranger. Perhaps they should reach out to property managers and/or boutique hotels, and bombard the site with a handful of more traditional lodging options as a way to create momentum. Alternatively, they could initiate a guerrilla marketing campaign to educate and familiarize the general public with the concept, illustrating real-life stories that de-stigmatized the experience. Whatever the answer, growing inventory and driving traffic was only part of the equation—they also needed to explore facets of their existing inventory to identify anything and everything that might be impeding their growth.

New York, New York

Despite approximately 40 properties listed in New York, bookings were low at around 15 per month, begging the question were users looking for a broader selection or were the listings themselves poor quality? If the latter, could they develop a more rigorous process for determining the types of accommodations they wanted to post on their website? For example, should they require an in-person meeting or onsite visit for every listing, at least in this early stage of the company's growth? Or perhaps they could institute ratings for accommodations similar to eBay's ratings for sellers so that buyers could weed out lower quality listings? Alternatively, it could be that the homes themselves were fine but that the website presentation was less than stellar. Some listings simply included a brief narrative about the property, with no photo at all, while others included a photo of the host and the interior of the accommodation which was posted, along with a map, on the listing's main page. Photos were typically taken by the host, often with a camera phone, though a handful of listings posted professionally shot photos which tended to increase booking rates two to three times. It was a fine line between gathering quality data and demanding too much from hosts, and the Airbnb team evaluated which criteria should be required for a listing to make it on to the site.

Like the photos, hosts had complete discretion over the written description of the property. As a result, the content and length ranged from a three-paragraph write-up about the host's well-appointed studio sublet to "Queen bed in two-bedroom apartment." If the "Queen bed" listing was also not accompanied by a photo or a guest's review, there was little information on which a prospective guest could make their decision. Though the data was inconclusive, it seemed clear that the more information presented about the property the better, and perhaps the Airbnb team could facilitate the process, either by creating an online form with mandatory fields or simply by editing the description with the host's approval.

After the stay, guests were encouraged to write up reviews of the property which other guests used as a basis for evaluating the various aspects of their experience, from the friendliness of the hosts to the comfort of the bed. Reviews were not a required portion of the listing and, like the property descriptions, were highly variable if they existed at all. Guests' write-ups could be as brief as "Very nice guy. The perfect host!" to a colorful half-page description of the property's

amenities and hot pancake breakfast. As Airbnb looked to strategically expand beyond event-based accommodations, the team believed reviews would become critically important for establishing a host's credibility and trust with prospective guests, particularly among first-time users. The cofounders began to think through ways to incentivize users to write descriptive, colorful, and honest reviews that would add richness to the listing and value to the site.

The last major issue which the Airbnb team wrestled with was the pricing itself. The nightly rate for each listing was based solely on the host's determination of value, with no maximum, minimum, or guidance as to what an appropriate price might be. There was the possibility that the company was losing potential revenue through underpriced listings, or conversely, losing potential customers who were turned off by inflated nightly rates. With few competitors in the space at the time, and a limited data set of comparable property types, it was difficult to assess exactly where the problem lay.

CONCLUSION

As Chesky, Gebbia, and Blecharczyk returned to the Bay Area in March 2009 after a week of meetings with their New York-based users, both hosts and guests, they thought through the questions, big and small, they now must answer. Should they focus all their energies on building up a large number of diverse listings with the assumption that more options would attract more users to the site? Or should they create a more rigorous process for filtering the listings that did end up on their site to ensure they did not become an overwhelming dumping ground for any shack that had a bed? Was it time to take more control over every aspect of their listings, or should they let the users of the site continue to drive the content as they had to date? Inevitably, every question they asked only spurred more, as they evaluated which issues to attack first in their quest to revive the company.

Exhibit 1
Original Concept
October 2007



Source: Airbnb.

Exhibit 2 Cofounders' Bios

Brian Chesky, CEO & Co-Founder

Brian drives the company's vision, strategy and growth. Always pushing the status quo, Brian aims to disrupt the industry with ideas that change the way people live. To grasp the full impact and experience of Airbnb, Brian rid himself of an apartment and has been living in the homes of the Airbnb community since June of 2010. He is committed to assembling a passionate, top tier team to deliver on this promise.

Before Airbnb, Brian ran an industrial design shop in Los Angeles; even these days he is rarely seen without a drafting pen and sketch book in hand. Brian holds a Bachelor of Fine Arts in industrial design from the Rhode Island School of Design.

Nathan Blecharczyk, CTO & Co-Founder

Nathan is the technical architect behind Airbnb. A pragmatist who translates vision and design into tangible product through fast iterations, Nathan uses data to identify and pursue high-growth opportunities. Under his leadership, the engineering team has developed a robust, secure marketplace which now facilitates a massive amount of commerce each day.

Nathan got an early start in business and technology when he founded an online marketing company while still in high school. Since then he has worked as a program manager at Microsoft, engineer at OPNET Technologies, and lead developer at Batiq. Nathan graduated with a degree in Computer Science from Harvard University.

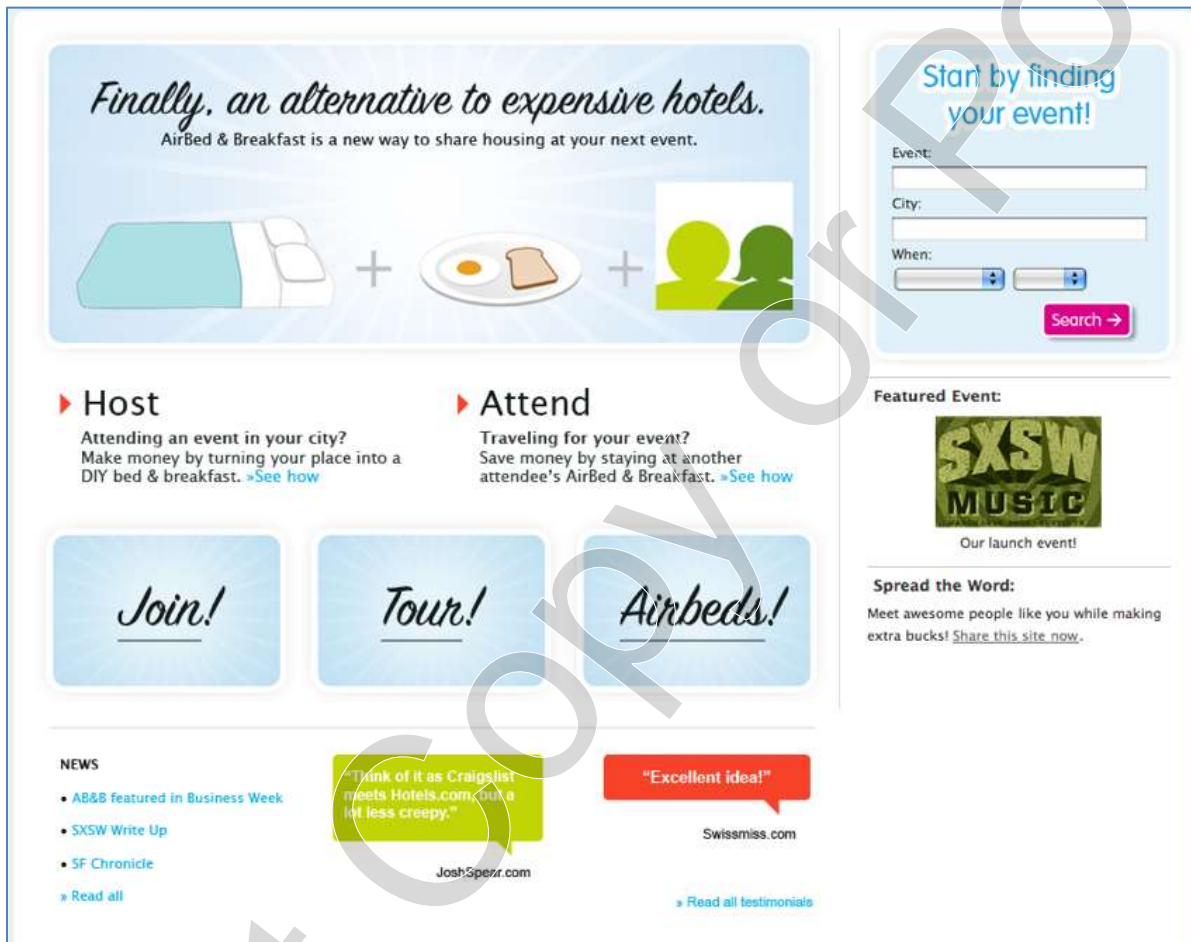
Joe Gebbia, CPO & Co-Founder

Joe defines the Airbnb experience. He is dedicated to creating an inspiring and effortless user experience through sharp, intuitive design, and crafts the product roadmap to make it so. Joe values products that simplify life and have a positive impact on the environment, and ensures that the company adheres to these tenets.

Prior to Airbnb, Joe was employed by Chronicle Books, co-founded a green design website, and developed several consumer products. An alumni of the Rhode Island School of Design, Joe earned dual degrees in Graphic Design and Industrial Design. He also founded the school's basketball team and led as student body president.

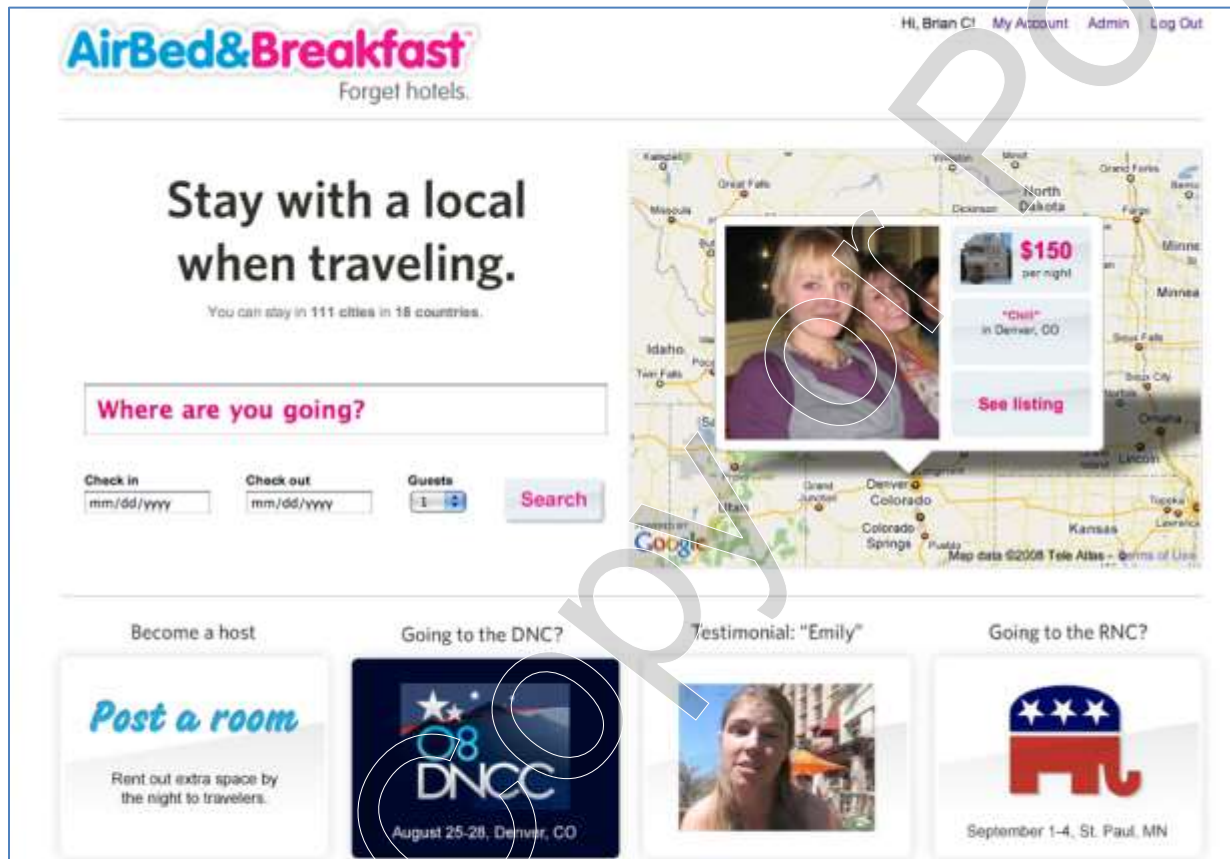
Source: Airbnb.

Exhibit 3
Screenshot from Airbed and Breakfast website for South by Southwest
March 2008



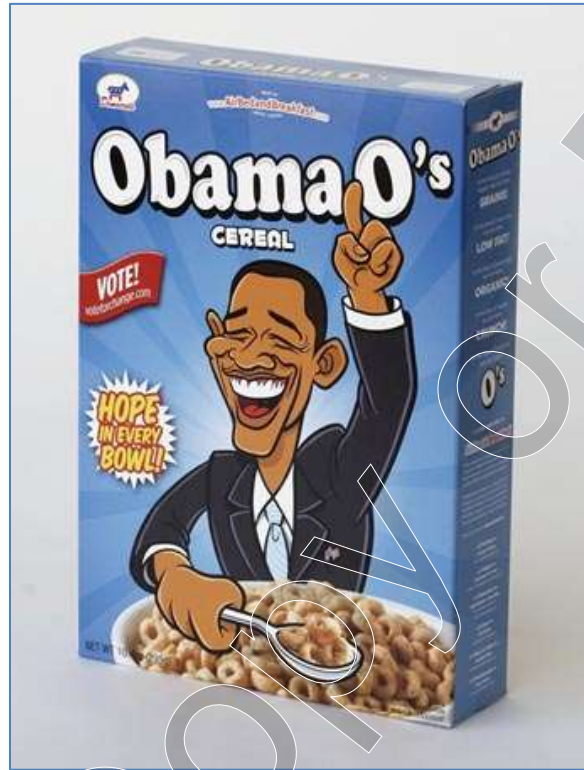
Source: Airbnb.

Exhibit 4
Screenshot from Airbed and Breakfast website
August 2008



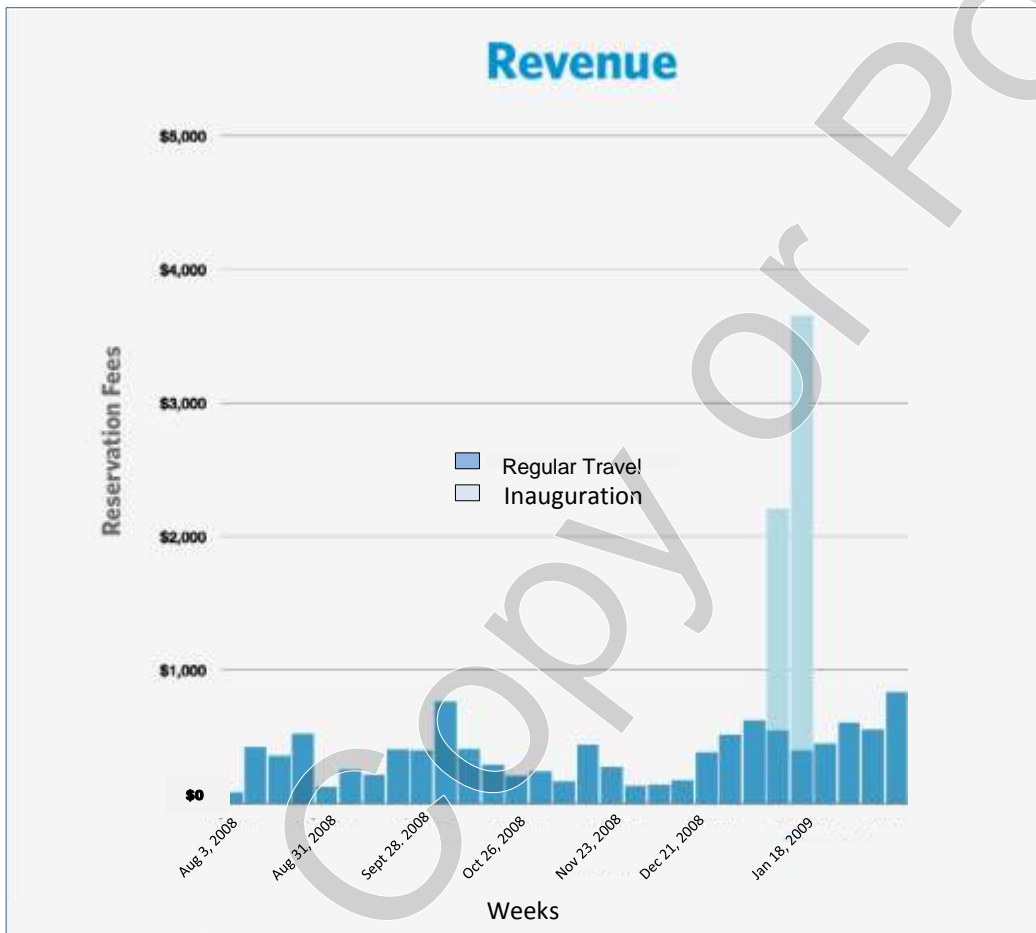
Source: Airbnb.

Exhibit 5 Cereal Box Campaign



Source: Airbnb.

Exhibit 6
Airbnb Revenue
August 2008 – January 2009



Source: Airbnb.