ISCTE Business School
Instituto Universitário de Lisboa

WHEN CONSUMING BECOMES COLLABORATIVE:
AIRBNB CASE STUDY

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Acknowledgments

Abstract

Digitalization has changed the game of supply and demand; and, more importantly, digitalization is the cause of disruption in many traditional industries. It is speeding the access to sources of supply in a way that was unthinkable not so long ago, uncovering the needs faster than ever, and potentiating their match. Additionally, it is empowering users by allowing them to take part in the process.

On the other hand, values of ownership, utility or sharing are shifting and new mindsets are emerging. The idea of experiencing overcomes the one of ownership. Sharing homes, sharing expertise, doing tasks and giving rides have become successful forms of business. However, the enduring questions are: What and how do they do differently?

The present case study reflects the emergence of new and reinvented business models to match the emerging economic system. Airbnb is the case for this study, being used to illustrate the developments of business models within the Collaborative Economy.

Although Airbnb represents a new business model, it has been adapting and reinventing its own business model as it evolves.

Key words: Digital evolution, Collaborative Economy, Airbnb, New business models.

JEL classification:
M10 – General Business Administration
M130 New Firms; Startups

Resumo

A digitalização alterou o jogo da oferta e da demanda; e mais importante do que isso, tem-se vindo a afirmar como causa da disrupção em muitas indústrias tradicionais. Está a acelerar o acesso às fontes de oferta, algo que, até pouco há pouco tempo era considerado impensável, a descobrir as necessidades mais rápido do que nunca, e a potenciar a correspondência entre ambas. Além disso, está a capacitar os seus utilizadores, permitindo que estes façam parte do processo.

Por outro lado, os valores de propriedade, utilidade e partilha estão em mudança e novas mentalidades estão a surgir. A ideia de experienciar está a sobrepor-se à de propriedade. Compartilhar casas, conhecimentos, fazer tarefas e dar passeios tornaram-se formas bem-sucedidas de negócios. No entanto, as perguntas centrais são: O que e como fazem de forma diferente?

O presente estudo de caso pretende refletir sobre o surgimento de novos e reinventados modelos de negócios que se adequam ao sistema económico emergente. Como forma de ilustrar o desenvolvimento de modelos de negócio na Economia Colaborativa, foi utilizado o estudo de caso do Airbnb, que, embora represente um novo modelo de negócio, tem vindo a adaptar e reinventar o seu próprio modelo de negócios à medida que evolui.

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1. The Case
1.1. Presentation of the Issue

Selling, buying, throwing away and buying again were the most common actions when discussing consumption until the 21st century. Nowadays, these words which represented the reality of capitalism are being substituted by others like sharing, lending, collaborating, swapping, reusing, and recycling. Sharing, which was a well-known practice between family and friends has been extended to strangers. This transformation is taking place through the emergence of new business models potentiated by the digital evolution.

Although it is a recent topic of discussion with many embedded uncertainties, companies with business models based on peer-to-peer collaboration have proven their economic potential, as well as their relevant role as contributors to society. New generations are creating new realities which are reinventing the traditional ways of doing business. Consequently, these new realities are being portrayed through new or reinvented business models. Consumption is being reinvented through collaboration.

There are many examples of successful collaborative business models, such as *Uber*, *TaskRabbit* and *TransferWise*. However, no one would have imagined that the most valuable accommodation provider in the world would not own any accommodation of its own.

The objective of this study is to attain further understanding of the Collaborative Economy, most precisely how Airbnb's business model reflects this emerging economic system.

1.2. Airbnb
1.2.1. Company profile

Airbnb is more than an online platform used to find accommodation. It represents a growing community that is shifting the way people feel about sharing, about travelling and about home. Brian Chesky, CEO and co-founder of Airbnb used a communication at Airbnb's blog to state that Airbnb is *"creating a door to an open world—where everyone's at home and can belong, anywhere."*. More than a travel experience for its guests, Airbnb also plays an important role for its hosts, allowing them to attain a new source of income by opening their homes and sharing their expertise.

1.2.2. History

Founded in August 2008 by Joe Gebbia, Brian Chesky and Nate Blecharckzy, Airbnb Inc. represents the emergence of new business models in a nonexistent market.

Airbnb Inc. was first born in October 2007 out of a struggle between two friends to pay their rent. According to an interview given by Brian Chesky to Reid at Standford University[1], the story begins when the two co-founders, Joe Gebbia and himself, realized that the only asset they had to overcome their financial struggle was the unutilized space at their apartment. Taking advantage of a design conference that would be held in San Francisco and knowing that all hotels were fully booked, Gebbia and Chesky decided to pursue their idea. For this matter they created airbedandbreakfast.com. Here they offered their unutilized space and provided airbeds and breakfast for the guests. This first trial accommodated just three guests, who paid $80 per night.

The second moment was in 2008 when Nate Blecharczky joined the team. This time called Airbed and Conferences United States, the idea was for travelers to book airbeds at other people's houses when they wanted to attend a conference and needed a place to stay. Still, Airbed and Conferences was only used to accommodate two customers, one being Brian Chesky himself.

In August 2008 the founders realized that they did not need to limit accommodation to airbeds or conferences. Anyone could be interested in staying at a regular accommodation for a reason that surpassed attending conferences. However, the founders took the advantage of launching for the third time, Airbed & Breakfast for the Democratic National Convention in Denver. Bookings were made at the time of the convention, but were not constant.

In a continuous pursuit for success, the business model of having airbeds and breakfast shifted to one of only breakfast. The founders decided to invest in themed cereal, taking advantage of the 2008 US elections. The themed cereal was named Obama 'O's and Cap'n'Mcain, constituting a limited edition of cereal, costing $40 a box. This radical shift allowed the founders to return to their initial model by using the revenue attained from the cereal boxes to fund Airbnb.

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[1] Interview for the class Technology-enabled Blitzscaling 18: Brian Chesky on Launching Airbnb and the Challenges of Scale at Stanford University taught by Reid Hoffman, John Lilly, Allen Blue, and Chris Yeh

In 2009 Airbnb joined Y Combinator winter class, a company that funds early stage startups and helps them prepare their investor's pitch. Brian Chesky also said at his interview given at Standford University that the reason they were accepted at Y Combinator was due to the fact that they had funded Airbnb by selling limited edition cereal boxes.

In March 2009, Airbed & Breakfast became Airbnb.

By April 2009, the founders had personally met many of their hosts by being guests at their homes. This initiative helped combine the creation of trust with the dissemination of Airbnb's culture of building a community and fostering a unique experience. Additionally, the Company received a six hundred-thousand-dollar investment by Sequioa Capital, which according to Brian Chesky, allowed Airbnb to grow from a market-fit product to a Company.

In 2014 Airbnb was considered the company of the year by *Inc Magazine.* According to Burt Helm, senior contributor writer at *Inc.,* Airbnb was disruptive, had built well-known brand, offered more accommodation than the largest hotel chains in the world and most importantly, had affected the popular culture with the idea of sharing their homes. On the 4th of December 2014, Brian Chesky used his twitter[2] account to communicate that Airbnb had achieved it's one millionth listing.

Now, in 2016 Airbnb has already tripled that number, having more than three million listings and having served over one hundred and fifty million guests (see Attachment 1).

A company that started in 2007 with three airbeds in a living room in San Francisco, went through three launches and is ten years later, according to information provided from Airbnb Inc., present in more than 191 countries and 65 000 cities. Airbnb considers itself a trusted community marketplace for people to live a unique travel experience.

1.2.3. Two-sided platform

Two different consumer perspectives must be acquainted to when discussing Airbnb. First, the one of the hosts who use Airbnb to rent their spaces or provide different services. Secondly, the one of the guests who use Airbnb to find a unique travel experience.

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[2]   Brian   Chesky   announcement   of   1   million   listings   on   Twitter
https://twitter.com/bchesky/status/541655860271783937

Hosts

Starting with the hosts, the process if very simple. They must identify themselves, as well as their listings or services by filling out a description, uploading pictures and picking the price. To help guests, Airbnb offers a professional photography service free of charge. According to Nidhi Subbaraman (2011), listings with professional photographs are booked 2.5 times more than those which do not have professional photographs.

Also, hosts must set the availability and house rules for the listing. When booked by a guest, hosts will receive a reservation confirmation message as well as a message from the guest, this allows hosts and guests to communicate online or via app and plan for the guest's reception. If hosts do not want to allow immediate booking, they will have a deadline of 24 hours to confirm the guest's reservation.

To ensure hosts feel safe when renting their spaces, Airbnb provides hosts with a one million dollar guarantee to cover for accidental damages as well as a *Host Protection Insurance* to protect hosts from liabilities in case guests get hurt or cause property damage. A 24/7 global *Trust and Safety* team is also available for contact if a host or a guest have an issue. These services bring no additional cost.

Guests

Guests, similar to hosts, must also provide relevant information. They must have a complete profile with personal information and preferentially a profile photo. A complete description facilitates the process between guests and hosts. The more information a host can retrieve, the easier it will be to create a trust relationship with the guest.

To find the ideal experience, guests must select the location and the dates. If searching for accommodation, guests must choose between renting an entire home, a private room or a shared room. Guests also have the opportunity of selecting different filters to facilitate their research (see Attachment 2).

1.2.4. Airbnb in 2016

More than providing unique accommodation, Airbnb continues in the pursuit of developing its business model. It has recently reached for an additional customer segment, the one of business travel and is also creating new services to provide its guests with a complete travel experience.

Business Travel

Having more than two million listings in more than 191 countries, Airbnb is thought of as an accommodation experience. Although this is true, the Company has taken a step further, creating a service for business travels. By using this service companies may book and manage accommodation for their employees.

However, to attain a *business travel status,* both accommodations and hosts are evaluated in different criteria of eligibility, including the amenities the listing must have. For example, to be considered for business travel hosts must have responded to 90% booking requests within 24hours in the past year and must have a five-star review for cleanliness and accuracy. The listings must have self-check in, smoke detector, carbon monoxide detector, wireless internet, amongst other requirements. Listings are constantly under evaluation and may lose their status if they do not correspond to all the criteria.

According to a release from Skift, (2016) by July 2016 business travel represented about 10% of Airbnb's booked travels.

Airbnb Experiences

Airbnb is adding value to the accommodation service by improving its offer. Recently the Company created *Airbnb Experiences,* allowing hosts to offer guests local community experiences. These experiences can have different formats, such as workshops, excursions or other activities promoted by local hosts.

Hosts which offer these experiences pay a service fee. However, if the experience is hosted by a non-profit Airbnb does not charge a service tax, being the whole amount for the non-profit.

According to information given by Brian Chesky at Airbnb Open 2016[3], this new option has been launched in 12 cities, aiming to be available in 50 cities during 2017.

Airbnb Places

As an add-on to their listings, Airbnb allows hosts to recommend places for their guests to visit through a guidebook. These guidebooks allow hosts to share places and tips, enriching the experience they may provide for their guests. Here guests may find available GPS activated,

[3]*AirbnbOpen* is a hosting festival promoted by Airbnb to join hosts all over the world https://airbnbopen.com/event

free of charge audio guided tours, called *Audio walks*. These walks are made available through a partnership with *Detour*[4].

By assessing these guidebooks guests can avoid tourist traps and visit places they would otherwise not visit, promoting the idea of 'living like a local'.

1.2.5. Creating a Reputational System

In the digital era, where face-to-face contact is very scarce, feedback about consumer experiences play a relevant part. Aware that trust represents one of the pillars for the Company's success, Airbnb has created different initiatives to build and enhance trust within its processes, always ensuring high levels of transparency.

To guarantee that both parties, hosts and guests, are able to describe and classify their experiences, Airbnb provides them a with a review system with specific guidelines. At Airbnb, reviews must be made within 14 days from the end of the service and are only made public when both parties have responded. This initiative incites users to give more honest, transparent, based on facts and constructive reviews, avoiding possible influences. If the reviews violate the company's content policy Airbnb possesses the right to remove them.

Furthermore, with the goal of enhancing trust between hosts and guests, Airbnb provides an ID verification called *Verified ID Badge,* which is be associated to the customer's profile. To obtain this verification, users must associate their social networks profiles to their Airbnb account, provide additional information (profile picture, phone number and email) and upload official documentation. When successfully verified, the *Verified ID Badge* is automatically attributed.

Additionally, Airbnb acknowledges experienced hosts by accrediting them as *Superhosts.* To be granted a *Superhost Badge,* hosts must have received a 5-star review in 80% of their reviews, hosted a minimum of ten trips, have a minimum rate response of 90% and have completed all confirmed reservations. To reinforce the hosts' profiles, guest are also able to see information regarding the percentage of response rate and the response time of each host.

These actions promoted by Airbnb potentiate trust amongst strangers, the first by providing additional and relevant information and the second by showing the positive opinion of other guests, impacting the choice of future guests.

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[4] *Detour* is a company which provides audio guided walks in cities https://www.detour.com/

1.2.6. Revenue Model

Airbnb generates revenue by charging service fees to hosts and guests when a reservation is confirmed. Hosts are charged a 3% of the reservations' subtotal before fees and taxes, while guests' fees usually vary between 6-12% according to the reservations subtotal, also before fees and taxes. Payment is collected when the host accepts the reservation request submitted by the guest, however, the amount is only transferred to the host 24 hours after check-in.

Additionally, with the launch of *Experiences* hosts pay 20% service fee when an experience is booked. Guests do not pay service fees when booking experiences.

Nevertheless, at Airbnb, guests and hosts can search and/or list accommodations without being charged. Free membership has quickly allowed the company to attract a great number of visitors without forcing them to contribute financially. For Airbnb, users are charged only when transactions are made, meaning that they will only be charged when a service is booked.

According to Wu, Lee, & Reynard (2012), what allowed Airbnb to create a *highly scalable business model* with favorable financial returns was the company's focus in customer service and satisfaction. By aiming in the direction of creating value for their users, Airbnb potentiated their brand value and created a culture of reliability and trust which engages its users. The Company has created this relationship of trust with its users by investing in features such as customer verification, insurance, reviews and social connections described in the previous topic.

The last available number regarding Airbnb's revenue dates to 2016 with an amount of $1,600,000,000, an increase of approximately 78% in comparison to 2015. This corresponds to the first year in which the company achieves profitability. (see Attachment 3)

In 2009 Airbnb began with a $2,990,000 valuation and seven years later, most precisely in August 2016 obtained a valuation of $30,000,000,000. (see Attachment 4)

1.2.7. Airbnb Community

Airbnb considers itself to be a growing community which is changing the way people feel about traveling and about home. According to Botsman & Capelin (2016), what differentiates Airbnb from other accommodation platforms such as Homeaway, VRBO and Wimdu is its emphasis in a community of people. Although the platform promotes and fosters an online community, all of these initiatives have the common objective of creating a better offline interaction.

Due to the dimension reached by the Airbnb community, and as a way of ensuring its well function, the *Airbnb Community Compact* was released in November 2015. This document lists the specific actions to help home sharing to continue to potentiate communities.

The actions that constitute the *Airbnb Community Compact* are the following:

1. Treat every city personally and help ensure the Airbnb Community pays its fair share of hotel and tourist taxes;
2. To build an open and transparent community to all;
3. Promote responsible home sharing to make the cities stronger.

All actions intend to create strong relationships between cities and the Airbnb Community. According to Airbnb's report *The Economic Impacts of Home Sharing around the world* (2015) conducted in San Francisco, New York, Paris, Amsterdam, Athens, Barcelona, Berlin, Boston, Edinburgh, London, Los Angeles, Montreal, Portland, and Sydney shows the travelers interest in living like locals, that great part of the expenditures take place in the neighborhoods they are staying in and also the economic impact that home sharing has on many hosts. (Table 1)

Table 1- The Economic Impacts of Home Sharing Around the World Airbnb, 2015

74% of properties outside main hotel districts
91% of travelers want to live like a local
79% of travelers want to explore specific neighborhood
Airbnb guests stay **2.1x** longer than typical guests
Airbnb guests spend more **2.1x** than typical visitors
42 % of guests spending is in the neighborhoods where they stayed
81% of hosts share the home in which they live
52% of hosts are low to moderate income
53% of hosts say that hosting helped them stay in their home
48% of hosts income is used to pay for regular household expenses like rent and groceries

Source: adapted from Airbnb.com/economic-impact

Although for many hosts Airbnb is a way of earning extra income, for others, hosting has been a way of avoiding eviction or foreclosure. For example, the first report about Rio de Janeiro and the Brazilian Airbnb Community released in 2016, shows that in the average income

received by host in 2015 was of $2,000 which helped 21% of hosts avoid eviction or foreclosure. Additionally, host income and guest expenditure generated $160 million in economic activity for the city (Airbnb, 2016a).

Moreover, in Barcelona, Airbnb shows an economic impact of $680 million in 2015 which is approximately six times higher than the impacted presented in 2013 (Airbnb, 2016b). Such expenditure, whether from users or suppliers is strengthening local economies as well as having positive impacts in standards of living, basic infrastructures and entrepreneurial initiatives (Pluess, Kim, Lee, & Pelaez, 2016). It is through these reports, protecting host and guest privacy that Airbnb intends to work with the cities to ensure that local governments are aware of the developments in home sharing policies.

Airbnb, as well as other companies belonging to the sharing economy, are removing or significantly reducing barriers of ownership and inflexible networks. Creating new opportunities for communities that were unable to participate in more traditional models (Pluess et al., 2016)

Airbnb's community potentiates connections between hosts through the sharing of stories and experiences on and offline. *Airbnb Open*, Airbnb's annual convention was created for this purpose. Here hosts give feedback, share best practices and learn more about hospitality and about Airbnb. Also during the convention *Super-hosts* nominated by the community are awarded.

The Company's concerns surpass aspects that relate to Airbnb only as an accommodation platform. Relevant topics and tools related to environmental and societal issues are grouped at *Airbnb Citizen*, increasing the community's and local government's awareness of issues that relate to its surrounding context. Educating new communities to host, encouraging entrepreneurship in cities and also promoting international tourism are aspects that create shared value for both Airbnb and for the cities. Additional actions such as adopting anti-discrimination actions, providing information about Zika Virus and Preparation for Hurricane Seasons and well as contributing and encouraging contribution for the Refugee Crisis are aspects that define Airbnb as a community.

Airbnb encourages its users to live as a community, potentiating the creation of different groups around the world. These groups are coming together online and offline and are contributing to the community by simply sharing advice or by gathering strengths to affect public policy

(Schor, 2014). Hosts are gaining extra income and are joining a supportive worldwide community which will allow them to learn from each other and from Airbnb.

1.3. Context
1.3.1. Digital Evolution

During the last decade, information, communication, and connectivity technologies have undergone significant improvements, creating new opportunities for both established firms and startups. Companies are constantly searching to tackle with new technologies and reimagining how they may create value through their business models (Dawson, Hirt, & Scanlan, 2016). Digital platforms are a relevant example since they have been unleashing new business models by combining products and services with technology (Bharadwaj, El Sawy, Pavlou, & Venkatraman, 2013).

According to Dawson, Hirt, & Scanlan (2016) "*...technology companies are exploiting data, virtualizing infrastructure, reimagining customer experiences, and seemingly injecting social features into everything.*" The internet itself has given rise to this new scenario of information and connectivity, leading to a new economic environment that reaches and can be reached globally and where users may find everything (Zekanović & Grzunov, 2014). Basically, we may consider that the internet has created a global market for everything, reaching a massive amount of potential customers.

According to the report *Digital in 2016- We are Social's*, there has been a 10% growth of Internet users and social media users, a 4% increase in mobile users and a 17% increase in mobile social media users in comparison to 2015. In general, the Internet's global penetration has achieved approximately 50% of the global population (Kemp, 2016). Users' expectations are also increasing with the increase of technology usage. People expect to have everything connected and available at real-time. The same author defends that the Internet is now considered to be more than an information provider, it is now society's' and commerce daily guide, connecting people to "things" they want at a colossal velocity. This does not mean that individuals are too demanding, they are simply demanding what technology has been offering them in this accelerated technological era.

According to Panian, Ž., (2013, as cited in Zekanović & Grzunov, 2014) the Internet may be segmented into four main economic sectors:

1. Producers of Internet infrastructure elements;
2. Providers of Internet services and applications;
3. Internet of entrepreneurs;
4. Intermediaries in the Internet business.

The fourth and most recent sector, Intermediaries in the Internet business, is the sector used to describe companies that focus in providing a service focused on matching the *needs* and the *haves* of users; creating an efficient link between supply and demand (Botsman & Rogers, 2010b; Zekanović & Grzunov, 2014). Companies in this sector are classified as *value-added services* since they add value to the basic offer (Zekanović & Grzunov, 2014). Airbnb for example provides a *value- added service*, it does not only provide for unique accommodation but also overcomes traditional accommodation services by being customer-focused, dedicated on improving the customers' experience and consequently increasing customer satisfaction. Furthermore, Airbnb offers the opportunity for hosts to gain additional income from their underutilized spaces and skills, provides cost-attractive accommodation for guests, boosts economic growth in local communities and encourages stronger community relationships.

Digitalization is disrupting industries by tackling supply, demand or both. Digital technology speeds the access to sources of supply that previously were not possible as well as it allows consumers to access more complete and transparent information. Companies are breaching for the possibility of connecting users, by allowing the access to supply and demand in a more transparent and undistorted way, which consequently lowers transaction costs and reduces information asymmetries (Dawson et al., 2016).

Airbnb did not create new buildings to ensure housing for its users, they realigned the market of supply and demand of accommodations through a digital platform which connects all online and mobile users. Airbnb, as many other digitally based companies have uncovered supply and demand which always existed in a unique speed and scale, creating a place for them in the market.

According to Owyang (2013), the Internet is suffering a shift by undertaking certain characteristics that were once defined as belonging to social media. The author describes the shift in three different phases, the first one being the *Brand Experience Era* driven by the web. In this era the power belonged exclusively to corporations and media, customers could only access information. In the second phase, *Customer Experience Era* driven by social media, customers were empowered with social media tools, allowing them to access and share

information. Here customers shared power with corporations, having a voice which had to be listened to. The third and last phase, and the one we are living today, is the one described as the *Collaborative Economy Era* driven by social media, mobile and payment system. According to data retrieved from Eurostat on e-commerce, the percentage of individuals that have ordered or bought good or services for personal use over the internet in the last twelve months was 59% in 2012 increasing to 66% in 2016 (see Attachment 6). Additionally, data regarding the most popular type of goods and services purchased online in the EU show that clothes and goods are the most popular, bought by 61% of e-buyers, and followed by 52% in travel and holiday accommodation (Eurostat, 2016). Customers are freely engaging with online commerce, looking at the Internet as a market and not only a source of information. They have gained power and access, they are shifting commerce by buying online and from each other, requiring that companies rethink their business and adapt to their needs.

The Internet nowadays has developed a sense of cooperation where users actively participate by connecting easily to others, where communication is defined by openness. It is bringing back the confidence and reliance on community, most precisely, in this case, trust in digital communities (Zekanović & Grzunov, 2014).

1.3.2. Digital trust

Digital trust has been a growing concern when discussing issues related to digital evolution. This fundamental topic has been presented by different consulting companies[5] as the way for companies to keep up with change, ensure growth and customer loyalty. According to the report *Building Digital Trust* (2013), for PwC, the new equation for the digital age is $Growth = Opportunity + Trust$.

The digital economy represents the sharing of information that individuals have always considered as confidential and are now sharing online with companies and strangers. Credit card information, locations and even pictures of their own homes have become key aspects when doing business. Airbnb is a big player when it comes to personal data. People are sharing personal information to create trust amongst the community and also within the transactions made.

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[5] Companies such as *Accenture, PwC* and *KPMG* have presented the topic of digital trust as a growth and customer loyalty strategy.

Sharing homes, which was something done only with people close to us, such as friends and family, has become a form of business. According to Nielsen's report on sharing, more than two-thirds of the respondents (68%) stated that they are willing to share their personal assets, while 66% stated that they are likely to rent products or services from others (Nielsen, 2014). This shows that values are shifting and individuals are willing to trust and share.

Digital trust in the sharing economy goes further than the trust between customers, it is also the trust that customers have towards the company. For this, KPMG identified five key attributes that a company must guarantee in order to build trust with its customers- Reliability, Credibility, Transparency, Security and Integrity. Customers' want to feel safe in their whole experience, knowing that they can rely on the company for support, that the company will give visibility on how information is being used and that the company will always use information in their best interest. Building trust will not only increase revenues but will also build lifelong relationships with customers (KPMG, 2015) If given the right tools, individuals are able to create trust with strangers.

Mazzella et al., (2016) present the D.R.E.A.M.S framework by BlaBlaCar in order to create online trust in peer-to-peer platforms. The first pillar relies on users declaring information about themselves, however, this information must respect the right amount of disclosure. In his TED talk *Designing for Trust*, Joe Gebbia stated that to build the right amount of trust it takes the right amount of disclosure. Giving too little or too much personal information does not potentiate trust. The second pillar refers to ratings, allowing for others to provide objective feedback and for individuals to build their peer-reviewed reputation. The third pillar regards engagement, platforms should allow members to commit financially before experiencing the product or service so the transactions are made with a higher feeling of safety. The following pillar represent the participant's active participation in the platform. This information will allow other users to see information regarding the participant's presence in the platform (eg. number of guests, time they take to respond). The fourth regards the moderation available, users tend to feel most secure when knowing that there are third-party verifications. ID verification made by Airbnb through *Jumio*[6] promotes transparency and trust through verified information. The last pillar for the creation of online trust regards social media, the ability to link new profiles with existing social media profiles provides more information with a greater time frame. (Mazzella et al., 2016)

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[6]*Jumio* is an online and mobile credentials management company https://www.jumio.com/

Knowing enough information about individuals and ensuring this information is verified, seeing what other users may say about them and knowing the users are engaged and active in sharing allows users to trust the transactions that are being made, trusting strangers. According to Stokburger-Sauer & Wiertz (2015) communities remove temporal and spatial boundaries, allowing consumers to convene online to connect over a shared consumption interest anytime and from anywhere. The idea that strangers are a synonym for danger is being dismantled and individuals are outrunning the idea of trust within a local community and opening a path for trust in a digital and global community scale.

Summing up the perception of trust, Botsman (2016) considers that there are three common steps when achieving trust. First users must trust the idea and consider it safe, second they must trust the platform providing the service and at last they must trust the other users. The more individuals participate in this process of trust the more comfortable and natural the process will become.

1.3. Future Outlook

The future of Airbnb and for the Collaborative Economy in general is still very uncertain. The first numbers available for Airbnb date to 2009, and since then have shown exponential growth, whether in listings, guests or revenue it has proven its place in the market.

However, as Brian Chesky said at *Airbnb Open* in November 2016, homes are just one part of the whole experience. Airbnb wants to allow travelers to immerse in local communities and live the experiences promoted by people.

However, not everything is perfect for Airbnb. Being a company built on a market realignment also means that this market had not been explored before and laws were not prepared to receive their business model. An example of this issue is the situation occurring with Barcelona. According to a news release from The Telegraph, in November 2016 the city had fined Airbnb for the second time, this time with an amount of $600,000 because of unlicensed properties being advertised in the platform. For the city this is a step in avoiding tourism saturation.

To overcome this situation, Airbnb promoted #AirbnbWithBCN on the 7th February 2017, a first group of measures for Airbnb listing in Barcelona, showing their commitment in working together with the city. Airbnb's plan consists in introducing automated controlling systems to limit only one entire home sharing for non-professional home sharers in Ciutat Vella, identifying home sharers and professional operators, helping hosts pay their taxes and helping neighbors of Airbnb listings share their concern with Airbnb which will contact the host to solve the problem. Additionally, Airbnb announced that these would only be the first measures, as they intend to continue to work with the city to find the best solutions for their concerns.

However, according to a release from Bloomberg one day later, February 8th 2017, Barcelona's city hall rejected Airbnb's proposal, considering that it does not solve the issue of unlicensed renting and will continue to sanction Airbnb.

Regulatory issues, as the one with Barcelona demonstrate that the existing regulatory systems do not foresee the existence companies like Airbnb. For this reason, Airbnb intends to continue to work alongside with local policymakers to ensure that Airbnb listings comply with city regulations and that it continues to generate economic activity. Although this is a constraint for Airbnb, the company has already worked alongside with other cities, prepared tools to guide its hosts, showed its willingness in working together with communities and governments and has demonstrated its capacity to adapt to each city's needs. As Airbnb works towards an agreement

with the cities it operates in, it also works toward improving the experience they can offer to their customers.

Homes, Experiences and Places have already been launched, however, for the company there is still much to come. Homes will be more than choosing a place to stay, it will be taken to next level where guests will be able to select different options, such as grocery delivery or car rental for their stay. Moreover, the Company also intends to have the options of booking flights through the app. Airbnb will be Homes, Experiences, Places, Services and Flights. (Airbnb Open, 2016)

Airbnb is going further, leading the platform to a stage that does not only include homes but includes the whole trip experience- a trip platform in a single app. Although the future is uncertain, the Company is building and adapting towards a goal to allow travelling to be *magical* and *easy*.

1.4. Case Study Questions

Question 1 – In your opinion, how does Airbnb promote a shared economy? Justify.

Question 2 – In your opinion, considering that Airbnb belongs to the Collaborative Economy, what do you believe to be the main drivers of Airbnb's business model?

Question 3 – *"Sharing homes which was something done only with people close to us, such as friends and family, has become a form of business."*

How can online platforms create trust between strangers? Describe the actions undertaken by Airbnb towards this matter.

Question 4 – Considering the three types of Collaborative Consumption (Product Service Systems, Redistribution Markets and Collaborative Lifestyles) to which type does Airbnb belong to? And why?

Question 5- How does Airbnb's business model classify in the Collaborative Economy business models? List the different dimensions according to Airbnb's business model.

Question 6 – How does Airbnb's business model differ from a traditional business model?

Attachments

Attachment 1: Miscellaneous Statistics- Listings and Cumulative Guests Served

	Listings	**Cumulative # of Guests**
2016	3,000,000	150,000,000
2015	2,100,000	60,000,000
2014	925,000	25,000,000
2013	550,000	9,000,000
2012	300 0000	4,000,000
2011	120 000	1,500,000

Source: adapted from PrivCo Airbnb Report (2017) and Airbnb.com/about/about-us

Attachment 2: Filters for Airbnb accommodation

Source: Airbnb.com

Attachment 3: Airbnb Revenues

Income Statement	Revenues	Net Income (Loss)
2016	$1,600,000,000	($100,000,000)
2015	$900,000,000	($150,000,000)
2014	$425, 000,000	
2013	$245,000,000	
2012	$130,000,000	
2011	$35,000,000	
2010	$5,300,000	
2009	$990 000,00	

Source: PrivCo Airbnb Report, (2017)

Attachment 4: Airbnb Valuation Details

Valuation Details	Valuation
2016-08	$30 000 000 000,00
2015-06	$25 500 000 000,00
2015-05	$20 000 000 000,00
2014-10	$13 000 000 000,00
2014-04	$10 780 000 000,00
2012-12	$2 850 000 000,00
2011-07	$1 310 000 000,00
2010-11	$71 800 000,00
2009-04	$2 990 000,00

Source: PrivCo Airbnb Report, (2017)

Attachment 5: Individuals having ordered/bought goods or services over the internet for personal use in the last 12 months
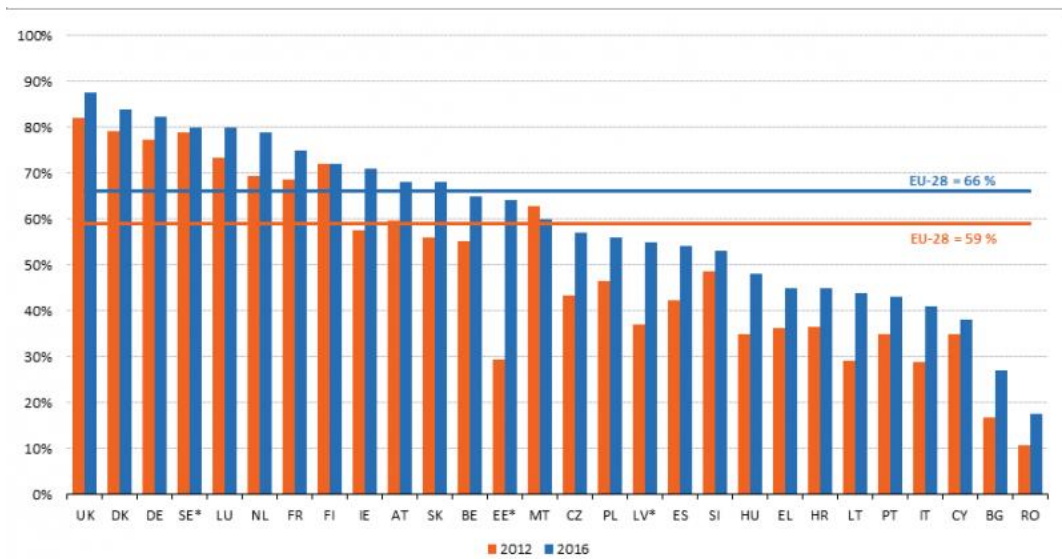
Source: Eurostat, (2016)

Attachment 6: Airbnb logo evolution

2008

2009

2014

Source: Botsman, R., & Capelin, L. (2016) *Airbnb: Building a Revolutionary Travel Company*.

2. Academic Note
2.1. Target

Given its pedagogical nature, the present case study targets bachelor and/or master's degree students whose studies are in management and/or hospitality related areas, with specific interest on strategy related topics. Additionally, the case may also be of use for professionals who perform strategy related functions to attain further knowledge on the Collaborative Economy and better understand the changes occurring in business models.

2.2. Learning Objectives

After the resolution of the present case study, the target audience must be able to:

- Understand the relationship between Corporate Shared Value and the Collaborative Economy;
- Understand the main drives of the Collaborative Economy;
- Realize the digital evolution is potentiating the growth of the Collaborative Economy, transforming a local practice into a global business;
- Comprehend that companies participating in the Collaborative Economy may be characterized differently;
- Understand how communities and trust can be built amongst strangers;
- Realize the emergence of new business models are associated with the growth of the Collaborative Economy.

2.3. Literature Review
2.3.1. Collaborative Economy

"An economic system of decentralized networks and marketplaces that unlocks the value of underused assets by matching needs and haves, in ways that bypass traditional middlemen." (Botsman, 2015a)

Complementary to this definition, Owyang et al., (2013) defend that in the Collaborative Economy, ownership and access are shared between corporations, startups and individuals.

There are many definitions that may be used to describe this emerging phenomenon of sharing and collaborative companies, however to help in the understanding Botsman (2015) suggests five main considerations:

i.   The core business idea should consist of *"unlocking the value of unused or under-utilized assets",* regardless of whether the idea results in monetary or non-monetary compensation;

ii. The company should be built on meaningful principles and have a clear, value-driven mission, being transparent about short and long term strategic decisions;

iii. The company should focus on the creation of shared value, being committed to improving the life of their supply-sided providers economically and socially;

iv. Customers, on the demand side, should be able to get goods and services efficiently, paying for access and not ownership;

v.   *"The business should be built on distributed marketplaces or decentralized networks that are able to create a sense of belonging, collective accountability and mutual benefit through the community they build"* (Botsman 2015).

Airbnb, *Landshare* and *TaskRabbit* are some examples of the many companies that are engaging consumers in a collaborative form of consumption, unlocking the value of underused assets and transforming the once known values of community, sharing and trust.

However, the Collaborative Economy is not an exclusive economic system for start-ups. As mentioned before in the definition, Owyang et al., (2013) include *corporations* as one of the main participants of the Collaborative Economy and complementarily, Cusumano (2015) claims that there is nothing that forbids traditional companies in transforming themselves to become more like their collaborative competitors.

Reinforcing this idea that established companies may also be relevant players, Botsman (2014) introduces an innovation framework to assist established companies in the process of identifying potential collaborative opportunities. The innovation framework exposes five types of vulnerabilities that are considered as *Disruption Drivers* and presents an *Innovation Principle* to match each one of them. (Figure 1)

Figure 1- Collaborative Economy Innovation Framework

Disruption Drivers	Limited access	Redundancy	Complexity	Broken Trust	Waste
	The customer doesn't want to or can't own or use the service or product due to price, convenience or availability.	The customer experiences layers of intermediaries-people or processes- that does not ultimately add value to the product or service.	The customer experiences frustration because of complicated rules, coordination, costs or time consuming processes.	The customer no longer trusts the institution due to a lack of transparency around fees, operations and terms.	The customer recognizes the wasted value of their assets (skill, spaces, stuff, etc…) that are being underutilized.

Innovation Principle	Shared access	Direct	Simplicity	Empowerment	Efficiency
	Reimagine the way customers can access the benefits of a product or service without having to own it outright.	Reinvent ways to enable people to connect directly to what or whom they need.	Refine products or services to their simples and most transparent forms.	Redesign the customer experience to enable people to form communities and empower each other.	Re-evaluate the ways all kinds of assets can be used more efficiently.

| Key Starter Question | *How can you create models that facilitate access over ownership?* | *How can you enable people to exchange, share and trade as directly as possible?* | *How can you remove friction from a system to make it secure, easy and fast?* | *How can you evolve from a brand and model built on 'institutional' trust to one built on 'peer-to-peer' trust?* | *How can you maximize the efficiency of underutilized assets by matching them with latent or unmet demand?* |

Source: adapted from Collaborativeconsumption.com (2014)

The same author provides examples of companies that face each Disruption Driver. For Limited Access the corresponding company is *Coursera* which provides internet-based classes for free, addressing the limitations of university education. To overcome Redundancy, is the example of *The Food Assembly* who connects local farmers, food suppliers and consumers directly, eliminating the middle-men. For Complexity, *Transferwise* allows individuals to make

inexpensive and simple money transactions to other countries, dismissing the need of making complicated currency transfers. To surpass issue of Broken Trust, *Friendsurance* allows individuals to form peer-to-peer networks to insure one another, overcoming the trust issues in the insurance industry. Also, to address the issues of Waste is the example of *Airbnb*, which allows individuals to rent their unutilized space and provide experiences to others.

Beyond start-ups, are the established companies who are reevaluating their own business models, realizing the need to transform themselves and engage in the Collaborative Economy by direct investments, acquisitions and partnerships with start-ups. For example, Avis acquired *Zipcar*, Google invested in *Lending Club* and Marriott Hotels partnered up with *LiquidSpace,* allowing individuals to book previously unutilized space (Botsman, 2014). These companies, and others that are in the same path, are accessing their dynamic capabilities, changing and adapting, in a way that addresses society's needs.

2.3.2. Sharing Value

Nowadays it is believed that economic, social and environmental issues increase due to businesses. It is according to this belief that Porter & Kramer (2011) argue that companies are *widely perceived to be prospering at the expense of the broader community"*.

To succeed companies must focus their efforts in achieving mutual benefits, for themselves and for the community. When discussing these benefits, Porter & Kramer (2011) highlight that the purpose is not in increasing the number of philanthropic initiatives, but in *"creating economic value in a way that also created value for society, by addressing its needs and challenges."*- creating *Shared Value* for the both parties.

Porter & Kramer (2011) distinguish the definitions of Corporate Social Responsibility and Corporate Shared Value, the former is mainly focused on reputation and having a limited linkage to business, while the latter has the company's profitability and competitive position as its core purposes, taking advantage of the company's *unique resources* and *expertise* to create social value that will also result in the creation of economic value. By adapting themselves to the reality of shared value, companies are adopting a business model which strengthens their contribution to communities and consequently builds a relationship of trust towards the government due to their active role in society. (Pluess et al., 2016)

Table 2- How shared value differs from Corporate Social Responsibility

Corporate Social Responsibility (CSR)	Corporate Shared Value (CSV)
Value: Doing good	Value: Economic and Societal benefits relative to cost
Citizenship, philanthropy, sustainability	Joint company and community value creation
Discretionary or in response to external pressures	Integral do competing
Separate from profit maximization	Integral to profit maximization
Agenda is determined by external reporting and personal preferences	Agenda is company specific and internally generated
Impact limited by corporate footprint and CSR budget	Realigns the entire company budget

Source: adapted from Porter, M. E., & Kramer, M. R. (2011). Creating SH. *Harvard Business Review*.

According to the same authors, the principle of *shared value* surpasses the perception that only economic needs are relevant, making way for the social needs to take part in defining markets. Companies may invest in Corporate Shared Value by adopting policies and practices that increase their competitiveness and simultaneously improve the economic and social conditions of communities in which they operate.

For the authors, there are three ways of creating shared value:

1. *Reconceiving products and markets* to meet society's needs
2. *Redefining productivity in the value chain* by inventing new ways of operating- energy and logistics use, resource use, procurement, distribution, employee productivity and location- to address societal issues
3. *Enabling local cluster development* that will enhance productivity, innovation and competitiveness and contribute to growing regional economies, for example, Silicon Valley.

The principle of shared value plays a crucial role when discussing the rise of the Collaborative Economy, reconnecting company's success with the community's success. According to Porter & Kramer (2006), the most significant role that a company can have for any community is by contributing for a prosperous economy.

Furthermore, Rachel Botsman stated at the Adobe Digital Marketing Symposium (2015), that it is of great relevance to note that the Collaborative Economy is rising through the re-

conception of products and markets to meet society's needs and by this creating shared value for individuals, communities and companies. Value is being created by the creation of a market for things that did not belong in a specific market before, meeting society's needs and transforming the traditional economy. The drivers that have led to this re-conception will be discussed in greater depth in the next topic.

2.3.4. Collaboration Drivers

The concept of collaboration is considered to be somewhat thought-provoking. Although discussions over the concept have risen in the recent years, it is a phenomenon that has been occurring since mankind's early days. Ten thousand years ago men left together to hunt and even with mankind's evolution, they continued depending on the activities held in group to insure the communities' survival. Sharing, exchanging, lending and other cooperative actions allowed communities to access goods. (Botsman & Rogers, 2010b; Burnett, 2014) However, the Industrial Age, mainly the second industrial revolution held in the 20th century emerged with the principle of mass production, making people richer and more urban, inherently leading them to mass consumption. (The Economist, 2012)

In the book *What's Mine is Yours,* Botsman & Rogers (2010), discuss the main forces considered to have played a critical role in the 20th century consumption, or what they call *hyper-consumption*:

i.   Power of persuasion- Tapping into the subconscious through advertising and getting them to desire the new and consequently desire more;

ii. Diderot Effect- The need of having a complementary group of possessions, creation and persuasion of the need to consume;

iii. Buy now and pay later culture- Credit, p1ushing away the pain of payment and altering the perception of the value of a product;

iv. Law of life-cycles- Constant creation of new generations of a product;

v.   Designing for the Dump- Planned obsolescence, products designed to be of short duration;

vi. "Just one more" factor- Great amount of choices available that becoming confusing, too much offer leads consumers to be confused about their needs which leads to consuming more to discover what these needs are.

Furthermore, the same authors claim that hyper-consumption that represented the 20th century is being overtaken by collaborative consumption which represents the 21th century. Shifting from a credit, advertising and individual ownership era, to one of reputation, community and shared access. According to Schor & Fitzmaurice (2015), collaborative consumption, or as they call it, connected consumption, due to its social and digital dimensions, is constituted by a combination of *old*, *revamped* and *new practices*.

Authors have identified the main drivers that have led to this new form of consumption. They consider that although the rise of social media and real-time technologies are of great importance, there are other aspects such as the economic recession and environmental awareness have led to the idea of a sustainable development for the next generations (Botsman & Rogers, 2010b; Burnett, 2014; Dbrowska & Gutkowska, 2010; Mohlmann, 2015; Nica & Potcovaru, 2015). While society is witnessing the rise of technologies, overcoming economic issues and have increased their environmental awareness, it is also longing for proximity with others and believing that the market needs to be humanized (J. B. Schor & Fitzmaurice, 2015). According to Cohen & Kietzmann (2014), these realizations have come to challenge the traditional view of how resources are consumed, presenting new ways accessing and consuming resources.

Although the economic recession has unquestionably accelerated this trend, there are many other factors that play an important role in this value transaction. For example, the buying of used goods, selling the things that are no longer needed, rise of urbanization and the limited availability of space. Also, the constant reminder that natural resources are becoming scarce embellishes the idea of extending the life of products. (Burnett, 2014)

Additionally, Burnett (2014) mentions the aspect of practicality, referring to the convenience that is brought by owners making money from underused assets, renters saving money by paying less that if they bought the product outright. This allows individuals to enjoy the benefits of accessing without owning, living life as they wish and avoiding acquisition of amounts of debt. Botsman & Rogers (2010) infer that these shifts are happening at a time when society is going through an assemblage of technological and cultural developments, increasing the awareness that this new phenomenon is here to stay. According to Nenonen & Storbacka (2016) we are going through a technological mega-trend supported by other trends such as the growing sustainability awareness. They also consider it safe to confirm that this phenomenon of sharing is not going to retreat, being part of an economic life in a foreseeable future.

Botsman, (2013) summarizes the drivers that have contributed and accelerated the shift in consumption in the following way:

i. *Values shift-* A renewed belief in the importance of the community;

ii. *Technological Innovation-* A torrent of peer-to-peer social networks and real-time technologies;

iii. *Environmental Pressures-* The pressing unresolved environmental concerns;

iv. *Economic Realities-* The global recession that has fundamentally shocked consumer behavior.

However, Owyang (2013) classifies the drivers of the collaborative economy diferently, grouping them into three groups of market forces - societal drivers, economic drivers and technological drivers. (Table 3)

Table 3- Three market forces drive de Collaborative Economy

Societal Drivers	– Increasing population density
	– Drive for sustainability
	– Desire for community
	– Generational Altruism
Economic Drivers	- Monetize Excess or Idle Inventory
	- Increase Financial Flexibility
	- Access over Ownership
	- Influx of VC Funding
Technology Drivers	- Social Networking
	- Mobile Devices and platforms
	- Payment System

Source: adapted from Owyang, J., Tran, C., & Silva, C. (2013, June 4). *The Collaborative Economy. Alimeter*

The main drivers suggested by both authors are very similar, thus classified differently. Despite these differences, both authors discuss the relevance of societal, economic and technological behaviors for the Collaborative Economy.

These market forces are the drivers of the Collaborative Economy, so as they evolve, so will the Collaborative Economy (Owyang et al., 2013).

2.3.5. Collaborative Consumption

" Almost every aspect of life has a sharing option" Burnett, (2014).

Collaborative Economy or Sharing Economy is complemented by the concept of Collaborative Consumption, where traditional market behaviors are reinvented- renting, lending, swapping, sharing, bartering, gifting—through technology, taking place in ways and a dimension that was not considered possible before the internet. (Botsman, 2015a)

Technologies have brought value to this new form of consumption, enhancing sharing between strangers throughout platforms that enable individuals to connect with other individuals who could be located anywhere: becoming more efficient and bringing closer together the supply and demand on a global scale. (Botsman, 2015a; Nica & Potcovaru, 2015). This leads to the creation of a fast-track bridge that links supply to demand more efficiently, anywhere in the world.

2.3.5.1 Types of Collaborative Consumption

The rise of the Collaborative Consumption has led to the appearance of many different examples of companies that belong in this reality. However, the activities of these companies that constitute the economy and culture of collaboration have different implications amongst them. For this purpose, Botsman & Rogers (2010) propose three different systems of Collaborative Consumption that help organize and understand the forms of consumption of the innumerous companies that belong in the Collaborative Economy. (Figure 2)

Figure 2- Collaborative Consumption Systems

Source: Botsman & Rogers, 2010a Beyond Zipcar: Collaborative Consumption. *Harvard Business Review*.

The first system is identified by the authors as *Product Service Systems,* where the value of access becomes more relevant than the one of ownership (Bardhi & Eckhardt, 2012). In this system, the products available are considered to be of a high idling capacity and are offered to consumers as a service. This gives consumers the possibility of benefiting from the product, without having to own it.

Secondly referred is the system of *Redistribution Markets*, this system is described with activities such as reusing, reducing, recycling, repairing and redistributing, allowing the items to have a longer lifecycle. The augmentation of the lifecycles happens because the item is moved from one owner that does not need it, to one who does, contributing to a reduction of waste.

The last system identified is the one of *Collaborative Lifestyles*, where individuals with similar interests connect themselves to enable the sharing of assets such as time, skills, space and money.

Tradition ownership barriers are being removed while the accessibility and affordability of goods and services are being improved (Pluess et al., 2016). These collaborative systems have created a marketplace for products that did not have an acknowledged market and also enabled an efficient match between the needs of supply and demand of the global community. (Botsman & Rogers, 2010b; Hartl, Hofmann, & Kirchler, 2015)

2.3.6. Millennials

Topics such as the definitions, drivers and systems have been mentioned when discussing a Collaborative Economy; portraying a different society with different values, one that is technology driven and community oriented. However, the definitions, drivers and the systems discussed above are all being promoted by a one generation - the Millennials.

There is no agreed upon time frame which allows to allege the age range to which this generation belongs to but it is agreed upon that they are technology driven and have grown up during the 21st century. The age range suggested for the Millennials goes from the late 70's until the early 2000s. However, the range considered for the development of this topic was 1981-1997 as defined by Pew Research Center (2016).

 Millennials may be said to be the first generation highly influenced by technology, and also highly influential on technology. The generation is not only being shaped by technology but is

also shaping it. They are more informed due to their online and mobile connection and can easily access product information, compare prices and also make or view reviews. They prefer to live in urban spaces of easy access to social interaction but they are also very altruistic, valuing their family, friends and community. (Goldman Sachs, 2015; Nielsen, 2014b)

The key findings attained from the report *Millennials- Breaking the Myths* by Nielsen characterize the Millennials in five main topics:

1. *Diverse, Expressive and Optimistic* – The most ethnically diverse generation, which values expression and although highly impacted by the economic crisis still visions success;

2. *Driving Social Movement Back to the Cities* – They look for housing in very urban places, being able to easily reach social interactive places without having to depend on cars;

3. *Struggling, But Have Entrepreneurial Spirit* – Necessity has led them to invest in their own businesses with their own entrepreneurial objectives;

4. *Deal Shoppers and Desire Authenticity* – They look for good price deals but are willing to pay more for products that have a social impact and do not give up on quality;

5. *Connect and Want Personal Touch* – They are technology-dependent. However, for them the connection must be personalized, involve direct interaction and proximity.

Millennials and Collaboration are the present and the future. Technology has changed the young adults and through it they have been shifting their own values, adapting to new trends and developing different ways of doing business.

2.3.7. Business Models
2.3.7.1. Defining Business Models

"The business model is a useful framework to link ideas and technologies to economic outcomes." Chesbrough (2006:108).

Although the definition of business models given by Chesbrough (2006) is very simple and direct, it presents itself as somewhat incomplete since a traditional business model is no longer viable in many industries Teece (2010). Business models must adapt to the developments occurring in the global economy, recognizing that there is no longer a simple balance between customers and suppliers.

The same author claims that consumers have now a greater number of options available, are able to express their needs while the supply alternatives are much more transparent, allowing consumers to be more demanding when it comes to choosing their suppliers. Developments in the knowledge economy, on the Internet and e-commerce are some of the aspects that have empowered consumers. Leading organizations to the understanding that a business model *"reflects management's hypothesis about what customers want, how they want it and what they will pay, and how an enterprise can organize to best meet customer needs, and get paid well for doing so."*(Teece, 2010: 172).

There is no grounded definition for business models (Morris, Schindehutte, & Allen, 2005; Shafer, Smith, & Linder, 2005; Teece, 2010). However, this is not necessarily a negative aspect since business models as well as the value propositions they offer need to be reevaluated and adapted to the new economy based on collaboration. (Botsman, 2014; Teece, 2010)

2.3.7.2. New era of Business Models

Socio-economic factors such as value shifts, societal concerns, the increasing environmental awareness and the developments in technology have been described above as the main drivers for the Collaborative Economy. However, for the Collaborative Economy to emerge, the traditional business models need reinvent themselves. (Botsman, 2014; Kortmann & Piller, 2016).

Kortmann & Piller (2016) present two socio-economic developments that have led the reinvention of business models. The first development considered by the authors is the *need of developing competitive and integrated business models,* having organizations take responsibility for the product during its whole life-cycle. The life-cycle is described by three stages: Production stage, Consumption stage and Circulation stage. These stages represent the product´s life-cycle, what they call the *Closed-loop value chain.* In other words, besides producing and offering services, organizations must also develop business models for the returns of the product after its consumption stage. With a post consumption stage consumers are able to appreciate the benefits accessing a product instead of owning one since they may return or exchange the initial product. (Bardhi & Eckhardt, 2012; Kortmann & Piller, 2016). The second development discussed by the authors refers to openness in business models, this openness is represented by the willingness of external stakeholders to participate in product development activities.

According to Botsman (2013), the challenge of creating value in new business models goes beyond the creation of value for the passive consumer, onto the creation of value for the creators, collaborators, financers, providers and producers. In a collaborative business model the consumer might also be a supplier, creating the challenge of having a two-sided business. This insures that the user, independent of playing his role as part of the supply or the demand, may attain the value he expects (Botsman, 2013). *TaskRabbit, Sharedesk, Airbnb, Lyf*t and Uber are some know examples of this two-sided peer to peer market. These companies use platforms to capture value from both sides, suppliers and customers, without actually creating it (Kortmann & Piller, 2016). For example, Airbnb allows suppliers to offer places to stay, whether it is a boat, a castle or an apartment, to customers that are looking for a place to stay. The company is facilitating, in a more efficient and trustworthy way, the match between the *needs* and *haves*. Someone who is searching for a place, and someone who has a place and wants to rent it. The two-sided aspect of the company is that a supplier may also be looking for a place through the platform, becoming a consumer himself. (Botsman & Rogers, 2010b)

2.3.7.3. Business Modelling in the Collaborative Economy

Moreover, Boyd Cohen and Pablo Muñoz present six dimensions of what they consider to be sharing economy business models and convert these dimensions into a Sharing Business Model Compass (Cohen, 2016). The six dimensions identified are: Technology, Transaction, Business approach, Shared Resources, and Governance model and Platform Type. There are three different options to be considered in each dimension when elaborating a sharing business model. (Figure 3)

Figure 3- Sharing Business Model Compass

Source: Cohen, B. (2016). Making Sense Of The Many Business Models In The Sharing Economy. *FastCompany*.

The first dimension, Technology is organized by Tech-driven, Tech-enabled and Low/No tech. Tech-driven business models leverage technology to connect users and complete transaction without offline interactions (e.g. crowdfunding sites/online learning portals). Tech-enabled business models rely on technology to facilitate connections but implicate or are enhanced by offline interactions (e.g. car sharing). Low/no tech business use technology as a supportive tool (e.g. shared commercial kitchens). The second dimension, Transaction is constituted by Market, Alternative and Free. Market Transactions establish price according to market conditions (e.g. Uber), while Alternative Transactions imply exchanging services or products for virtual money that can be used later in the same platform. Free Transactions do not charge for the service/product, for example bike sharing in many cities.

The dimension of Business Approach can be defined as Profit-driven, Hybrid or Mission-driven. Profit-driven approaches as the name explains have their main goals in attaining profit. This could be considered the objective of all companies but this reality is also shifting (e.g. Uber). For example, Hybrid models are profit-driven but also in their goals the creation of

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benefits in communities. The extreme model is the Mission-driven model, having as main goal benefit creation for communities, not considering profit for the company itself.

Shared Resources, a fourth dimension, is divided in Optimize New Resources, New Home 4 Used Resources and Optimize Under-utilized Resources. The optimization of new resources takes place when companies decide to acquire new assets and optimize them through sharing. New home 4 used resources connect used resources to people who want to acquire them. While optimizing under-utilized resources happens when individuals can share their under-utilized assets with ones that want to use them. Both Optimize New Resources and Optimize Under-utilized Resources promote access over ownership.

The Governance Model can be Corporate, Collaborative or Cooperative. According to the authors, a Corporate Governance model is most seen in venture-capital based companies. Collaborative structures also involve the platform users and other interested parts. While Cooperative structures consist of collective ownership, where individuals join to form cooperatives, providing services in platforms that they also own.

Considering the dimension Platform Type, there are different decisions to be made; whether it will be B2B, B2Crowd or P2P. Business to Business (B2B) companies facilitate sharing and rental of assets between companies. *Cohaelo* is an example of a B2B platform which facilitates sharing of expensive hospital equipment between hospitals. On the other hand, Business to Crowd platforms own the assets that are shared in the community, for example, *Rent the Runway* owns the clothes that may be rented by individuals. However, Peer to Peer (P2P) platforms enable the sharing between individuals. *Airbnb* and *Taskrabbit* do not own assets. The first facilitates the rental of accommodation between owners and guests while *TaskRabbit* facilitates the sharing of services between individuals who provide the service and the ones who are looking for it (Cohen, 2014).

The decisions made in all dimensions are set to help startups define their initial business models when entering the Collaborative Economy. According to the authors, the business model chosen initially does not imply that it will be a permanent one. *Rent the Runway* is an example of changes that may occur to business models, the company began with using under-utilized existing resources and shifted to new resources, acquiring the clothing for rental users (Cohen, 2014). The first model will help define a path, however organizations must adapt and evolve according to its surrounding, and if necessary re-think its business model.

2.3.7.4. Business Model Canvas for the Collaborative Economy

"When clearly understood, an organization's business model can provide insight into the alignment of high level strategies and underling actions in an organization, which in turn supports strategic competitiveness" (Casadesus-Masanell and Ricart, 2010 cited in Joyce & Paquin, 2016).

To help define, examine, re-think and document business models, Osterwalder and Pigneur introduce the Business Model Canvas in their book *Business Model Generation* (2010). Here the authors support the idea that a business model allows for the alignment between strategies and business, which is crucial when exploring a business model.

The Canvas tool was created in a very visual way to ensure a simple and intuitive interpretation. Being composed by nine building blocks which represent the four main areas of a business: Customers, Offer, Infrastructure and Financial Viability.
The first two main areas are composed by Customer Segments, Value Proposition, Channels, Customer Relationships and Revenue Streams represent the value created. While the latter are composed by Key Resources, Key Activities, Key Partnerships and Cost Structure represent the efficiency of the business model.

The Canvas applies both to new and existing companies. While start-ups use the canvas to help define their business model, existing companies use the tool to manage their strategy or to define new opportunities (Osterwalder, 2013). Companies are able to adapt and maintain their competiveness when they are able to identify how they can deliver and capture value to the environment they are in.

The drivers discussed above have been changing the way society faces consumption, and it is through the identification of these drivers, as well as a clear understanding of the business model that allows companies to "stay in the game".
Business has been suffering significant changes due to the shift that companies are making into an "asset-light" reality (Botsman, 2015a). Tom Goodwin (2015), explains this phenomenon by giving the example that the world's largest taxi company does not own any vehicles, the world's largest accommodation provider does not own any accommodation and the most popular social media does not create any content.

Identifying Value in the Collaborative Economy

Answering the questions *"How?", "What?", "To Whom?"* and *"How Much?"* are a kick-start in the identification of the main aspects that compose a business model. They will also help understand how companies that do not own assets which provide their service can be amongst the most valuable companies today. (Austin, Canipe, & Slobin, 2015)

The following table was constructed using the authors' description of the nine building blocks that compose and help understand the Canvas tool.

Table 4- The Building Blocks of Business Model Canvas

Block	Definition	Examples
Customer Segments	Different groups of people the company wants to reach and serve	Mass Markets; Niche Markets; Segmented; Diversified; Multi-sided platforms.
Value Proposition	Bundle of products or services that create value for a specific customer segment	Newness; Performance; Customization; "Getting job done"; Design; Price; Brand/Status; Cost-reduction; Accessibility; Risk Reduction; Convenience/Usability.
Channels	Customer touchpoints that the company uses to reach its customer segments and deliver a value proposition	Sales force, Web Sales; Own stores; Partner stores; Wholesaler.
Customer Relationships	Types of relationships the company establishes with its customer segments	Personal Assistance; Dedicated Personal Assistance; Self-service; Automated Services; Communities; Co-creation.
Revenue Streams	Money a company generates from each customer segment	Asset fee; Usage fee; Subscription fee; Lending/Renting/Leasing; Licensing; Brokerage fee; Advertising.
Key Resources	Important assets to make the business model work, may be owned or leased by the company or acquired by key partners	Physical; Financial; Intellectual; Human.
Key Activities	Important activities the company must have to make the business model work	Production; Problem-Solving; Platform/Network.
Key Partnerships	Network of suppliers that make the business model work- reasons for having partners.	Optimization and economy of scale; Reduction of risk and uncertainty; Acquisition of particular resources and activities.

Cost Structure	All costs incurred to operate the business model.	Fixed-costs; Variable costs; Economies of scale; Economies of scope.

Source: adapted from Osterwalder, A., Pigneur, Y., Smith, A., & Movement, T. (2010). ***Business Model Generation***

Together the nine building blocks which compose the Canvas tool which portrays an organizations' business model. However, Business Model Canvas has been used for many different purposes. Some examples are, when defining strategy, when creating a common shared language, to understand competition and when prototyping alternative business models (Amarsy, 2015; Garner, 2015).

The Canvas tool is adaptable to different business models. Thus, when discussing Sharing Economy Business Models, most precisely multi-sided platform-based business models, there are a few building blocks that may be seen as the most impacted; Customer Segment, Value Proposition, Revenue Stream, Key Resources and Cost (Osterwalder et al., 2010).

The concept of a multi-sided platform has existed for many years; however, it has thriven with digital evolution. It relies on the interaction of at least two different sides which use the platform as an intermediary for the transactions taken place amongst them (Evans, Schmalensee, Noel, Chang, & Garcia-Swartz, 2011; Hagiu & Wright, 2015; Osterwalder et al., 2010). They create value by performing the role of intermediaries which connect and serve simultaneously the different sides.

Although the concept seems simple, it represents an issue known as the chicken-and- egg problem. The same happens with multi-sided platforms, there will be no users without customers on the opposite sides (Evans et al., 2011). For example, *TaskRabbit* would not exist if there were no users looking for someone to perform their tasks, as well as if there was no one available to perform them. In these business models, both sides depend on each other and will only grow simultaneously.

According to the same author, there are three major activities undertaken by multi-sided platforms:

1. Facilitate exchanges by serving as matchmakers for different users/members;
2. Build communities since it is most likely that a user/member will find a match;
3. Provided shared resources and reduce the cost of the service.

However, the depth into which the multi-sided platforms perform these activities vary according to service/product they provide.

As mentioned above, there are a few building blocks that may be seen as the most impacted. According to Osterwalder et al., (2010), the *Customer Segment* is one of the building blocks which differ in multi-sided platforms. When analyzing this block in the multi-sided platform business model, two or more *Customer Segments* must be considered. Although these segments have a significant independent component due to their distinct *Value Proposition* and *Revenue Stream*, they are highly interdependent since the model does not exist if there aren't at least two sides which interact.

The *Value Proposition* is another building block which may vary in multi-sided platforms, here will be described the reason behind the customers' choice of the company in comparison to other offers. Also, it must be in accordance with each the *Customer Segment*, unraveling the customers' pain points. Thus, in multi-sided platforms value is also created by having the platform serve as a matchmaker between the customer groups, as well as allowing a reduction in the transactions costs.

Revenue Streams attained in multi-sided business models differ in each *Customer Segment* since each segments' participation in the platform may be charged differently. Additionally, the *Key Resources* of all multi-sided platforms rely in the platform itself, being the main asset of the model, which require the main activities- *Key Activities*. Consequently, the main *Costs* incurred with multi-sided platform business models are also related to the platform.

The growth of a multi-sided platform business model relies in a network effect, meaning that it will grow according to the growth of its users. Applying the analysis of the business model according to this pattern identified in the Canvas tool will allow for a richer and profound understanding on the main areas impacted by multi-sided business models.

2.4. Analysis Tool

The overall analysis of the present case study relies on a set of quantitative and qualitative information. The quantitative information is used in order to analyze the companies' fast-tracked development as well as its perception in the investor and customer perspective. Nevertheless, the qualitative information allows for an in-depth detail-oriented analysis regarding the Companies' business model. Combining both the analysis of quantitative and qualitative information will contribute to a better understanding and resolution of the case.

Quantitative information:

- Airbnb's Revenue (in US dollars);
- Airbnb's Valuation (in US dollars);
- Airbnb's Number of Listings and Cumulative number of Customers Served;
- Average findings of Airbnb's impact around the world.

Qualitative information:
- The company history, to understand how the company was founded and evolved;
- The revenue model, to understand how the company attains its revenues and creates shared value;
- The two sides of the platform, to demonstrate how the company creates value differently according to the customer side;
- The Companies' recent developments portray its objective of being more than an accommodation platform;
- The creation of a reputational system to understand how the company builds and promotes digital trust;
- Actions undertaken within the platform-based Community Center are important to understand Airbnb's role in creating an online community and empowering their members and local governments with the information and tools and support needed;
- The progress of the digital era and consequently, digital trust help contextualize the Companies' business model;

2.5. Animation Plan

In order to achieve the proposed objectives, it is suggested that the application of the present case study is divided in four main phases.

Phase 1: The application of the case study should take place in a classroom environment to ensure the group work and debate between participants. To begin its development participants should be divided into small groups of 3 to 4.

After this division, it is important to allocate time for an individual reading of the case. The individual reading will allow participants to analyze the case and gain their own perspective before entering a group discussion. When concluding the individual analysis, participants should gather with their initially attributed groups and begin the debate for the case resolution. Due to the extension of the case, it is suggested that the emphasis of the first class is the debate and resolution of the three first questions.

The groups which are not able to finish solving the first three questions should finish before the second class since these initial questions will facilitate the resolution of the remaining and also to ensure the scheduled resolution of the following questions is not affected.

Phase 2: During the second class participants should continue the resolution of the case study, focusing on the three remaining questions (question 4, question 5 and question 6). At the end of the class, the existing groups must be divided equally in two large clusters, A and B. These clusters will serve as a division for the following stage, the presentation of the case, cluster A should be attributed questions 3,4 and 5, while cluster B questions 1,2 and 6. A date must be scheduled for the presentations, considering the case has been resolved during classes and the time needed is only to structure and visually prepare the presentation.

Phase 3: The third phase, which is the preparation of the presentations should be developed by participants until the scheduled date, not allocating class time for this preparation.

Phase 4: All groups must present their resolutions of the case. Cluster A should ask questions and debate with Cluster B concerning their resolution of questions 1, 2 and 6 while Cluster B should do the same concerning questions 3,4 and 5.

The following table represents the proposed animation plan to conduct the resolution of the case study. Having present the *Phase, Activity, Tasks* and *Suggested time*.

Table 5- Animation Plan

Phase	Activity	Tasks	Time
1- Class Activity	Individual reading	Analyze the case and gain individual perspective before entering a group discussion	20 min
	Group debate	Discuss individual perspective of the case to reach group consensus. Focus on the main topics related to the first 3 questions before beginning the resolution	30 min
	Resolution: Q1	Understand what is Shared Value, how it is reflected in the Collaborative Economy and most specifically in Airbnb's business model	25 min
	Resolution: Question 2	Understand the main drivers of the Collaborative Economy, analyzing and specifying the ones of Airbnb	15 min
	Resolution: Question 3	Understand how digital trust is being built as well as the main pillars in peer-to-peer platforms framing Airbnb's actions to build digital trust	25 min
2- Class Activity	Group Review	Review of the previous analysis and resolution	10 min
	Group debate	Discuss as a group the main topics for the resolution of questions 4, 5 and 6 considering the resolution of the previous questions as an important input for the following questions	40 min
	Resolution: Question 4	Analyze the different types of Collaborative Consumption, classifying and justifying Airbnb's position	15 min
	Resolution: Question 5	Understand the different possibilities of business models in the Collaborative Economy, positioning Airbnb according to its business model.	20 min
	Resolution: Question 6	Analyze the differences of a traditional and platform-based business model, listing and explaining Airbnb's main differences as platform-based business model.	30 min
	Cluster groups	Groups must be divided in two main clusters. Cluster A will work on the presentation of questions 3,4 and 5 Cluster B of questions 1,2 and 6	3 min
	Schedule presentation	Communicate the date for the presentations	2 min

3-Homework	Preparation of the presentation	Presentation should be developed by participants until the scheduled date, not allocating class time for this preparation.	
4-Class Activity	Presentations	Presentation of the case resolution according to allocated cluster	5/7min group
	Q&A	Cluster A questions and debate with Cluster B concerning their resolution Cluster B should do the same concerning questions 3, 4 and 5.	25 min cluster

2.7. Resolution

The following questions are examples of key topics that should be mentioned in the resolution of this case study:

Question 1 – In your opinion, how does Airbnb promote a shared economy? Justify.

Corporate Shared Value (CSV) according to Porter and Kramer (2011) takes place when a company takes advantage of its unique resources and expertise to create social value which consequently results in the creation of economic value. Organizations' that focus on shaping their business model to have an active role in society, most precisely in communities, are also building relationships of trust towards the governments.

Airbnb plays its part promoting a shared economy by creating Corporate Shared Value through its business model. The company has reconceived the accommodation market to meet society's needs. Most precisely, it has created a market that did not belong in a specific market, potentiating the match between the ones looking to rent their idle spaces with those looking for a place to stay; providing unique accommodation and unique experiences at a cost-attractive price.

Additionally, the company enables local cluster development through the accommodations and experiences available, allowing for guests to explore communities that they would otherwise not visit. Consequently, this boosts economic growth and strengthens relationships with local communities. Porter & Kramer (2006) state that the most relevant role a company can have in a community is to contribute for a prosperous economy.

Moreover, Airbnb attains its revenues by charging service fees. With accommodation services, the company charges hosts 3% and guests 6-12% and with experience services the hosts are charged 20%. Guest access cost-attractive services and live different experiences, hosts gain additional income out of their under-utilized spaces and skills and the Company attains its revenues out of these service fees when services are booked.

For the hosts, according to Airbnb's report *The Economic Impacts of Home Sharing around the world* (2015) 53% said that hosting helped them stay in their home and 48% of hosts use their income originated from hosting to pay for regular household expenses. For the guests, 91% state that they want to live like a local and 42% of their spending is in the neighborhood they stayed. Looking at a concrete example, the first report about Rio de Janeiro and the Brazilian Airbnb Community shows that in the average income received by host in 2015 was in order of

$2,000 which helped 21% of hosts avoid eviction or foreclosure. Additionally, host income and guest spending generated $160 million in economic activity for the city.

Due to the dimension of its community, to ensure the well-functioning of it's services and to avoid conflict Airbnb released the *Airbnb Community Compact.* This compact lists the specific actions that should be undertaken to help home sharing in continuing to potentiate communities.

The actions that constitute the Airbnb Community Compact are the following:

1. Treat every city personally and help ensure the Airbnb Community pays its fair share of hotel and tourist taxes;
2. To build an open and transparent community to all;
3. Promote responsible home sharing to make the cities stronger.

The Company's concerns are not exclusive to the one of economic growth and also focus on environmental and societal aspects.

Summing up, Airbnb attains its revenues by matching accommodation amongst its users (hosts and guests) and it is through the matching that the company promotes local economic growth and creates relationships with communities.

Question 2 – In your opinion, considering that Airbnb belongs to the Collaborative Economy, what do you believe to be the main drivers of Airbnb's business model?

The main factors identified as being the drivers of the Collaborative Economy are the digital evolution, economic recession and environmental awareness. The digital evolution has also influenced a value shift in the new generations. For example, Millennials are considered to be the first generation highly influenced by technology and also the ones which influence technology. However, they long for a personal touch by having a more personalized and interactive connection.

Societal drivers, such as the sense of community or economic drivers such as under-utilized assets are drivers that define Airbnb's business model in the Collaborative Economy. However, technological drivers such as mobile devices and platforms, payment systems and the rise social networks through these platforms have enabled the existence of business models like the one of Airbnb. Digital technology speeds the access to sources of supply that previously were not possible as well as allowing consumers to access more complete and transparent information.

Airbnb did not create new buildings to ensure housing for its users, they realigned the market of supply and demand of accommodations through a digital platform which connects all online and mobile users. Airbnb's business model could exist without technology but it would never achieve the scale it has nowadays.

> **Question 3** – *"Sharing homes which was something done only with people close to us, such as friends and family, has become a form of business."*
>
> How can online platforms create trust between strangers? Describe the actions undertaken by Airbnb towards this matter.

Creating trust, most precisely digital trust, between strangers is a topic linked to the rise of the Collaborative Economy. The idea that strangers must not be trusted is deeply rooted in society and is very difficult to overcome.

BlablaCar introduced D.R.E.A.M.S as a form of creating online trust in peer-to-peer platforms. The framework proposes the following pillars:

1. Declaring Information - Having users declare information about themselves, always respecting the right amount of disclosure. It is important for users to give enough information without invading their personal lives;
2. Ratings - Allow users to give objective feedback and on the other hand allow users to build their peer-reviewed reputation;
3. Engagement - A level of financial commitment before the experience of the product of service creates a feeling of safety for the users who own the service or product;
4. Active Participation - Allow users to visualize other users' participation in the platform, for example, how long they take to answer and what is the number of transactions they have made with other users;
5. Moderation - Users feel safer when there are third-party verifications within the process;
6. Social Media - Allow users to link new profiles with existing social media profiles to provide more information with a greater time frame.

Airbnb provides all the pillars suggested by the D.R.E.A.M.S.

Considering the pillars of *declaring information, moderation* and social *media*, Airbnb only allows users to make a reservation once they have declared their information, giving a complete profile and preferentially a profile photo. This is valid for both hosts and guests since both

parties must have a profile. Additionally, they provide for a third-party verification by using Jumio to verify the users ID. To obtain this verification, customers may associate their social networks, provide additional information (profile picture, phone number and email) and upload official documentation to their profiles. When the process is complete, Airbnb gives these hosts a *Verified ID Badge*.

In terms of *active participation*, users are able to see the time it usually takes hosts to respond when they are contacted as well as their percentage of responses.

Regarding the pillar of *ratings,* both guests and hosts may be reviewed and rated. Airbnb acknowledges experienced hosts by accrediting them as *Superhosts.* To be granted a *Superhost Badge,* hosts must have received a 5-star review 80% of the time they have been reviewed, hosted a minimum of ten trips, have a minimum rate response of 90% and have completed all confirmed reservations. The badges granted by Airbnb potentiate trust amongst strangers, the first by providing additional and relevant information and the second by showing the positive opinion of other guests, impacting the choice of future guests

In terms of *engagement*, Airbnb ensures its users are financially committed when booking a reservation. Payment is collected at the moment the reservation is accepted by the host, however, the amount is only transferred to the host 24 hours after check-in. This is an approach to ensure that both parties are committed.

Since the trust issues also affect hosts, Airbnb provides them with a one million dollar guarantee to cover for accidental damages as well as a *Host Protection Insurance* to protect hosts from liabilities in case guests get hurt or cause property damage. Both the guarantee and the insurance bring no additional cost for the guests.

Airbnb has transformed the idea that sharing homes was something we only did with the ones close to us transforming it into a form of business.

Question 4 – Considering the three types of Collaborative Consumption (Product Service Systems, Redistribution Markets and Collaborative Lifestyles) to which type does Airbnb belong to? And why?

Due to the upsurge of companies which belong to the Collaborative Economy the authors Botsman and Rogers (2010) found the need of coming up with a classification which could

cluster the companies according to their type. For this matter, the authors propose three main types of Collaborative Consumption Systems to which the companies may belong.

1. Product Service Systems;
2. Redistribution Markets;
3. Collaborative Lifestyles.

The first type is composed by the offering of products as services, taking into consideration that what creates value is the fact that individuals can access these products without having to own them. A very common example is the one of the power drill, many people own them but they are not given much use during their lifetime. Zilok.com allows for peer-to-peer rental of tools and other goods. The second type focuses more on the r's of collaboration (reuse, reduce, recycle, repair and redistribute) of goods. In this type items can have a longer lifecycle since they are moved from someone who does not need the product, so someone who will use it. UsedCardboardBoxes.com is a company which collects cardboard boxes from large companies that would not reuse them and resells the boxes.

The last system identified, Collaborative Lifestyles, is where Airbnb is included. This type of Collaborative Consumption portrays connection between individuals to enable the sharing of services, avoiding to waste the value of their assets. Airbnb enables the matching of individuals with underutilized space and skills which they wish to rent and individuals looking for a place to stay and/or an experience, creating value from the provided services.

Companies such as Airbnb are creating a place for themselves in the market which did not exist before and are achieving success in a short period due to their ability to match supply and demand at a global scale.

Question 5- How does Airbnb's business model classify in the Collaborative Economy business models? List the different dimensions according to Airbnb's business model.

As defined in the question above, Airbnb is a company which belongs to a type defined by Botsman and Rogers (2010) as a Collaborative Lifestyle. However, this classification defined by the authors does not break-down the company's specifications as a player in the Collaborative Economy.

To gain further understanding on the dimensions that compose a sharing business model, Cohen and Munoz proposed a Sharing Business Model Compass based on 6 dimensions: Technology, Transaction, Business Approach, Shared Resources, Governance Model and Platform type.

Airbnb's position in the different dimensions are the following:

1. Technology: *Tech-enabled* - Enabling the connection between hosts and guests to share under-utilized assets and skills. Offline interaction in also required in most check-ins and experiences provided for guests;

2. Transaction: *Market price* - The prices of offers are defined by hosts with the help of suggestions offered by the platform which are based on similar offers;

3. Business Approach: *Hybrid* - The Company was founded as for-profits with a clear statement to help the communities in which they are present;

4. Shared Resources: *Optimize Under-utilized Resources* - Promoting the use of under-utilized spaces and recently also promoting the use of skills for the experiences;

5. Governance Model: *Corporate Structure* - Platform is managed and developed by Airbnb's Corporate Structure;

6. Platform Type: *Peer-to-Peer* – Transactions are made between users; the Company does not own the assets exchanged serving as facilitators for the exchanges.

Although Airbnb is enabled by technology, everything they do is powered by people.

Question 6 – How does Airbnb's business model differ from a traditional business model?

Airbnb starts by differing from traditional business models from the fact that its business is based on the platform. A two sided platform in which their customers, which are the users of the platform, are both the hosts and the guests. In two-sided platforms such as Airbnb the platform serves as an intermediary amongst the users, connecting and serving both sides simultaneously. Here the hosts put up their listings or experiences and guests are able to search and book the offer they are interested in.

In traditional business models companies provide their offer, whether a product or a service, and promote these offers towards their customers, however, Airbnb gives individuals who want to provide an offer the possibility of matching with individuals who are looking for the offer.

Airbnb facilitates exchanges amongst different users, matching the *"haves"* and the *"wants"* available, builds a community of trust within the platform by having a robust review system and reduces the cost of the service.

Furthermore, Airbnb gains revenue from both hosts and guests. When an accommodation is booked, hosts paying a fixed 3% service fee while guests vary from 6-12% according to the accommodation. However, when an experience is booked, hosts pay a service fee of 20% while guests are not charged a fee and pay only for the experience.

According to Osterwalder and Pigneur (2010), when discussing multi-sided platform-based models, there are a few building blocks that differ from the traditional business models. These are the Customer Segment, Value Proposition, Revenue Stream, Key Resources, Key Activities and Cost.

By being a platform which allows hosts to provide unique accommodation, accommodation with amenities for business travel, and by also different experiences and tips Airbnb is targeting different *Customer Segments*. On one hand the hosts which can offer their under-utilized spaces and provide different experiences, gaining an income. On the other hand, the guests which are budget travelers, business travelers and travelers looking for a new experience.

In terms of the *Value Proposition* it is also distinct between both users. Hosts see value in the possibility of monetizing their under-utilized assets or skills and by being part of a trusted community, while guests value the accessible costs, the unique experience, the business travelling without losing the comfort of homes and the possibility of discovering new places by living like a local. Each *Value Proposition* corresponds to the *Customer Segment* pain points.

The same occurs with the *Revenue Stream*s, Airbnb attains its revenues in both *Customer Segments.* Hosts pay a 3% service fee on the accommodation they provide and a 20% fee for the experiences, however, guests pay a 6-12% fee on the accommodations they book and are not charged on experience. Although they are charged differently, in both cases the fees are only charged when guests' book accommodations or experiences.

Airbnb's main *Key Resource* is the platform itself, however the Brand and Community that the company has built over the years may also be considered as part of the *Key Resources*. Since the *Key Activities* relate to the *Key Resources* the platform development and maintenance, marketing and community management are the main activities held by the company.

Consequently, the main *Costs* relate to the *Key Activities* performed by Airbnb, being platform development and maintenance costs, marketing and community management costs. Additionally, Airbnb has the costs of the insurances and guarantee they provide for hosts and guests insurance and its employees.

Summing up, Airbnb is a platform-based company whose success relies on the platform usage. Hosts providing listings and experiences and the guests searching and booking for these listings and experiences. The growth of Airbnb's business model relies on a network effect, meaning that it will grow according to the growth of its users.

2.9. Resolution Slides

CASE STUDY QUESTIONS

Q4 Considering the three types of Collaborative Consumption (Product Service Systems, Redistribution Markets and Collaborative Lifestyles) to which type does Airbnb belong to? And why?

Q5 How does Airbnb's business model classify in the Collaborative Economy business models? List the different dimensions according to Airbnb's business model.

Q6 How does Airbnb's business model differ from a traditional business model?

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Question 1

Shared Value at Airbnb

M⊗tch

- Looking to rent under-utilized spaces or experiences;
- Looking for a travel experience at a cost-attractive price;

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Shared Value

91% Travelers want to live like locals — CREATING A NEW EXPERIENCE

42% Of spendings are in the neighbourhoods they stay — ENABLING LOCAL DEVELOPMENT

53% Hosting helped them stay in their home — GENERATING NEW FORMS OF INCOME

The most relevant role a company can have in a community is to contribute for a prosperous economy

Porter and Kramer 2006

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Question 2

Main Drivers

Technological Innovation

Values Shift

Economic Realities

Environmental Pressures

- **Enabled** by technology, matching users in a scale not thought possible before;
- The shift in values, a new sense for community and sharing;
- Access over **ownership** at a cost attractive price;
- Giving back **use** to under-utilized assets.

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Question 3

Promoting Trust between Strangers

D.R.E.A.M.S framework by Bla Bla Car

1. Declaring Information
2. Ratings
3. Engagement
4. Active Participation
5. Moderation
6. Social Media

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D.R.E.A.M.S Framework By Bla Bla Car

AIRBNB

DECLARING INFORMATION
- Users must provide information for a complete profile, preferentially with a profile picture

MODERATION
- Third-party verification is provided through Jumio to verify users ID;
- Successful verifications Grant automatic Verified ID badge on profiles.

SOCIAL MEDIA
3 step verification
- Official document;
- Online profile;
- Clear profile picture, email address and phone number.

ACTIVE PARTICIPATION
- Time of host response is also available for visualization.

RATINGS
- Both hosts and guests may be reviewed on 6 cases;
- Superhost badge is given to hosts with 80% 5-star ratings, minimum response rate of 90%, completed all confirmed reservations.

ENGAGEMENT
- Payment is collected at the moment reservations are accepted by the host;
- The amount is only transferred to the host 24 hours after check in.

Host guarantee | Host Protection Insurance

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Question 4

Collaborative Lifestyles

⚙ **Product Service Systems**
Turning products into services, access over ownership.
Ex: rental of tools Zilok.com

◎ **Redistribution Markets**
Redistributing goods to where they are needed
Ex: cardboard boxes usedcardboardboxes.com.

⬤ **Collaborative Lifestyles**
Portrays connection between individuals to enable the sharing of services.
Ex: Airbnb

€65 Food market & food tastings · 2 hours ★★★★★ 20 reviews

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Question 4

Collaborative Lifestyles

⚙ Product Service Systems
Turning products into services, access over ownership.
Ex: rental of tools Zilok.com

◎ Redistribution Markets
Redistributing goods to where they are needed
Ex: cardboard boxes usedcardboardboxes.com.

Collaborative Lifestyles
Portrays connection between individuals to enable the sharing of services.

€65 Food market & food tastings · 2 hours ★★★★★ 20 reviews

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2.10. Management Conclusions

Eight years have passed since Airbnb officially launched its business model, but above all it has been unstoppable in its form of rethinking and adapting to the market's needs. Airbnb did not create or acquire any assets to support its business model. The Company realigned the market of supply and demand of services, most precisely accommodations and experiences, matching individuals through a digital platform. The number of offers continue to grow exponentially, as well as the number of guests. Additionally, the experience is constantly being improved; innumerous listings are available for travelling, specific listings are available for business travel and new services are being developed. Airbnb's most recent services, Airbnb Experiences and Airbnb Places have been designed to ensure hosts can provide their utmost services to guests and that guests can enjoy the most out of their experience.

Furthermore, Airbnb has created an online and offline feeling of trust through investing in building a community and empowering this community with different tools and measures. By providing their users with these tools and measures, the Company is aiming to ensure transparency and feeling of safety to their users during the whole process. Also, the community designed by Airbnb is enriched by bringing together individuals from all around the world, allowing them to share experiences, tips and help. Brian Chesky, co-founder and CEO of Airbnb considers that the internet is bringing people back to the real world; no longer pulling them apart, but bringing them back together (Blitzscaling 18, 2015).

Digital developments have facilitated and promoted the emergence of new business models, however, they are only a part of the whole picture when building or rethinking a business model. Customers have become more informed, which consequently makes them more demanding. The act of buying has become insufficient and now translates into acquiring more than a product or a service, but an experience. In his TED talk *How Airbnb Designs for Trust*, Joe Gebbia stated that these new models represent more than a simple transaction, they represent a transaction which longs for human connection. To him, people are sharing more than a service, they are sharing a part of themselves, which makes the difference.

The long-term success of companies belonging to the Collaborative Economy is still uncertain, however, to date, Airbnb has presented remarkable financial results. The Company has shown to be more than an accommodation platform by creating experiences for guests and opportunities for hosts. Meanwhile, it is also designing for trust and enabling the creation of a

global and local community. Global due to its vast digital connection, but at the same time very local, for encouraging proximity between members and local governments.

In the past decade emerging business models have created markets that had not been explored before and have accelerated the need for business models to emerge, to adapt or to completely reinvent themselves. Business has been evolving in a very accelerated pace due to its surrounding circumstances. Technology continues to evolve and business models are simultaneously being shaped. Platform-based business models already existed before, eBay for example was founded in 1995. However, the emerging business models of the Collaborative Economy have created new opportunities by exploring markets beyond the redistribution of products. The digital evolution is no longer seen as disruptive, it is embedded in our day to day routines. What now shows disruption is the existence of new markets, the speed and scale of the match promoted by technology, the change of the digital path onto the creation of digital trust and the changes in individual's mindset.

However, the fast evolution also presents consequences for emerging business models. It has outpaced legislations, being the main reason that companies such as Airbnb and Uber are facing regulatory constraints with local governments. Companies must be prepared, equipping themselves with different tools, measures and great capacity of adaptation to face regulatory issues. It is required that parts evolve to meet the emerging business models, changing the organizational mindset.

Understanding *what* and *how* these business models differ from traditional business models is crucial for success, leading to a following question; how will managers and entrepreneurs adapt to this new reality? The example of Avis which acquired *Zipcar* or the Marriot Hotels partnering with *LiquidSpace* represent the adaptation of established business models onto the Collaborative Economy. Although these companies did not completely reinvent their business models, they have and adapted them to the current scenario. The future of businesses is being defined by this emerging economic system, relying on the technology as an enabler but focusing on creating and constantly improving the customer's experience; keeping in mind that two-sided business models bring the additional challenge of creating a value-added customer experience for both parties, considering the specifications of each side.

Society is continually rethinking and redefining the concept of ownership. This evolution has been driven by a variety of factors: an economic downturn sparked the necessary conditions to foster a more idealistic world view that views a life of excesses with disdain. Paired with the

access and security provided by technology that advances at an exponential rate. Technology has become the great enabler that connects supply to demand on a global scale, paving the way for a truly collaborative economy. To put it out on a limb, this is the future; and businesses will have to adapt to this evolving ecosystem to stay relevant as newer, leaner competition rises.

The path however, isn't without obstacles. Legislations around the world remain unprepared to deal with such a future. While there has been progress, it has showed a slow pace in contrast to technology. This represents both a threat and an opportunity. On one hand, businesses will have to operate within the limits of legislations to move in the right direction. On the other hand, the emergence of new legislations will create the opportunity for business models to evolve and adapt. The symbiotic nature of business and policy will only deepen in the years to come.

It is time for management positions to rethink their business models and strategies, keeping up with the fast-tracking evolution.

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