

*Notes & Note taking template*

## **Course - Best Digital Technology Business Models Today**

### M4.1: Search & Transaction Cost

#### **Overview**

The saving of search, transaction and post-transaction cost in comparison to traditional business models is one of the most important concepts underpinning the success of platform business models.

Some professors state this to be in fact the most important aspect.

Going back to the 1937 work of the Nobel Prize-winning economist Ronald Coase, we will see how internalising transaction cost was an important contributor to firms and large firms emerging in the industrial areas.

Platform business models, however, have reversed this process of internalising such costs but externalising them back to the participants of the platform by bringing them down to acceptable levels, distributing them on many shoulders and rewarding their acceptance with new value propositions.

We will be using 4 major verticals to demonstrate their importance and understand similarities & differences: Assets & Service Sharing, Social & Communication, Search & Vertical Search and eCommerce.

## Key Objectives

We will learn about the cost structures of tech companies:

- Some theoretical background on
  - Search,
  - transaction and
  - post-transaction cost
- Externalising internal (transaction) cost
- Examples from:
  - Assets & Service Sharing,
  - Social & Communication,
  - Search & Vertical Search and
  - eCommerce

## Intro / Theory Video

### Search & Transaction Costs

*“At the most fundamental level, there are two types of basic functions that [platforms] can perform:*

- *reducing search costs, incurred by the [platform’s] multiple constituents before transacting,*
- *and reducing shared costs, incurred during the transactions themselves.*

*Any feature or functionality of a [platform] falls into either of these two fundamental types.”*

*Andrei Hagiu, “Multi-Sided Platforms”, Harvard Business School*

## Search & Transaction Costs

*"At the most fundamental level, there are two types of basic functions that [platforms] can perform:*

- *reducing **search costs**, incurred by the [platform's] multiple constituents before transacting,*
- *and **reducing shared costs**, incurred **during the transactions** themselves.*

*Any feature or functionality of a [platform] falls into either of these two fundamental types."*

*Andrei Hagiu, "Multi-Sided Platforms", Harvard Business School*

*Our terminology:*



**"Search Cost"**



**"Transaction Cost"**

## Transaction Cost Theory

### Ronald Coase

From Wikipedia, the free encyclopedia

**Ronald Harry Coase** (/ˈkoʊs/; 29 December 1910 – 2 September 2013) was a British economist and author. He was the Clifton R. Musser Professor of Economics at the [University of Chicago Law School](#), where he arrived in 1964 and remained for the rest of his life. He received the [Nobel Memorial Prize in Economic Sciences](#) in 1991.<sup>[1]</sup> Coase believed economists should study real-world wealth creation, in the manner of [Adam Smith](#), stating, "It is suicidal for the field to slide into a hard science of choice, ignoring the influences of society, history, culture, and politics on the working of the economy."<sup>[2]</sup> He believed economic study should reduce emphasis on [price theory](#) or theoretical markets and instead focus on real markets.<sup>[3][4]</sup> He established the case for the corporation as a means to pay the costs of operating a marketplace.<sup>[3]</sup> Coase is best known for two articles: "[The Nature of the Firm](#)" (1937), which introduces the concept of [transaction costs](#) to explain the nature and limits of [firms](#); and "[The Problem of Social Cost](#)" (1960), which suggests that well-defined [property rights](#) could overcome the problems of [externalities](#) if it were not for transaction costs (see [Coase theorem](#)). Additionally, Coase's transaction costs approach is currently influential in modern [organizational economics](#), where it was reintroduced by [Oliver E. Williamson](#).



## Transaction Cost Theory

*"Our task is to attempt to discover why a firm emerges at all in a specialised exchange economy. [...]*

*The main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism. The most obvious cost of "organising" production through the price mechanism is that of discovering what the relevant prices are. This cost may be reduced but it will not be eliminated by the emergence of specialists who will sell this information. The costs of negotiating and concluding a separate contract for each exchange transaction which takes place on a market must also be taken into account. Again, in certain markets, e.g., produce exchanges, a technique is devised for minimising these contract costs; but they are not eliminated. It is true that contracts are not eliminated when there is a firm but they are greatly reduced."*

*Coase, Ronald H. (1937). "The Nature of the Firm".*

*<https://onlinelibrary.wiley.com/doi/10.1111/j.1468-0335.1937.tb00002.x>*

## Transaction Cost Theory: Categorisation

1. **“Search and information costs** are costs such as in determining that the required good is available on the market, which has the lowest price, etc.
2. **Bargaining and decision costs** are the costs required to come to an acceptable agreement with the other party to the transaction [...]
3. **Policing and enforcement costs** are the costs of making sure the other party sticks to the terms of the contract”

*Oliver Dahlman, 1979*

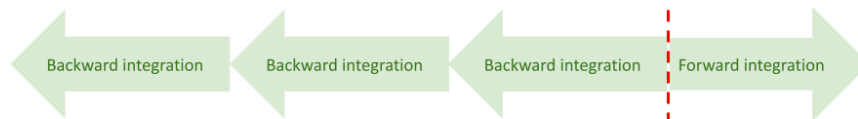
## Amazon Vertical Integration over time



Firms internalise transaction costs associated with “one” step within an industry value chain. Example how Amazon started.

There are 100s of transaction types within each of these steps represented by the many departments and even roles that interact with each other through formal and informal processes.

Amazon started with a linear business model but then built Amazon Marketplace as a platform business model before they got disrupted by someone else doing this.

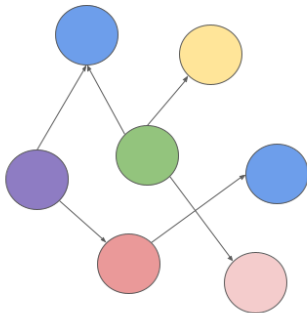


Amazon continued to integrate more value creation steps and transaction costs associated with those under within one firm

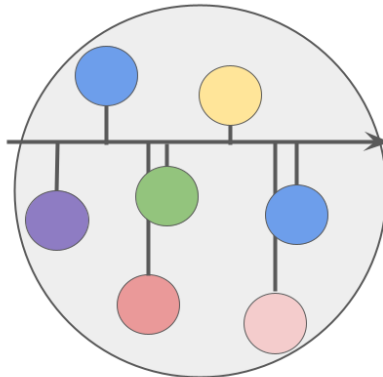
**Starting point**



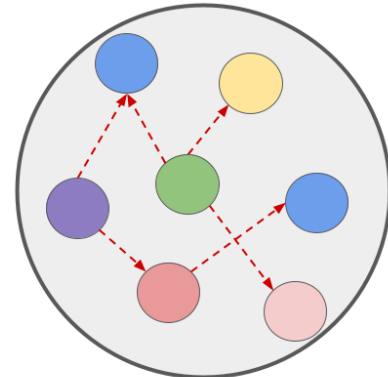
## Evolution of Transaction Costs: internalisation vs externalisation



Pre-industrial and early industrial:  
Many direct interactions among  
economically small agents / individuals  
⇒ Considerable transaction costs (all  
external) involved for the participants



Emergency of firms & large firms (linear  
business models)  
⇒ one of the reasons is that transaction  
costs are internalised and thus - on  
balance and at scale - lower than direct  
transactions



Platform business models  
⇒ lower the transaction costs to an  
“acceptable” level for participants and  
externalise them back. All transactions occur  
on the platform. The “market” is not perfect  
but acceptable for a sufficiently large number  
of participants

*Course: Best Digital Technology Business Models Today*

*© Dr Murat Uenlue, [Innovationtactics.com](http://Innovationtactics.com); Strictly for personal use only*

## Search & Transaction Costs

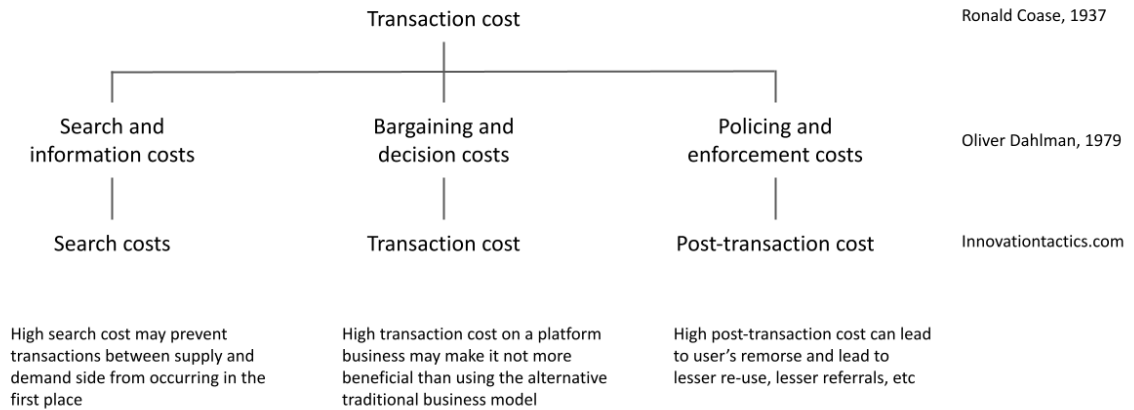
### **Traditional (linear) Business Models:**

1. Internalised certain transaction costs to gain competitive advantage
2. Then optimised & reduced as much as possible (decade long processes)

### **Platform Business Models:**

1. Externalised certain transaction costs
2. On aggregate these are likely higher than within comparable linear biz models
3. But distributed on many more shoulders (supply / demand side participants) → not necessarily competing with traditional businesses on the same cost structure
4. In return for provided (new) value propositions

## Search, Transaction & Post-transaction costs - Terminology



*The term "cost" can include an individual's time, efforts, skills and knowledge, uncertainty, financial costs, need to make decisions or include risks.*

Online travel agencies provide more search features and personalisation than we used to have in brick-and-mortar agencies.

But they also move the search cost to the user saving on actual staff

The screenshot shows a search results page for accommodations in Sydney. On the left, there is a 'Filter by:' section with various options:

- Your previous filters:**
  - Kitchen/kitchenette (11)
  - 4 stars (9)
  - Free cancellation (11)
  - Fitness centre (10)
- Your budget (per night):** A slider set between AUD 130 and AUD 400+.
- Popular filters:**
  - Apartments (11)
  - Free cancellation (11)
  - Very good: 8+ (5)
  - Based on guest reviews
  - 4 stars (9)
  - Kitchen/kitchenette (11)
  - Hotels (10)
  - Private bathroom (11)
  - Sydney CBD (10)
- Health & safety:**
  - Properties that take health & safety measures

The main content area displays three accommodation listings:

- Adina Apartment Hotel Sydney Town Hall:** Very good 8.3 (852 reviews), Location 9.3. Standard Studio, Entire studio • 1 bathroom • 28m². Beds: 1 double or 2 singles. FREE cancellation • No prepayment needed. Price: AUD 727 (was AUD 1,066). Includes taxes and charges.
- APX World Square:** Good 7.5 (1,687 reviews). Standard Studio with Balcony (Limited Housekeeping), Entire apartment • 1 bedroom • 1 bathroom • 43m². 1 extra-large double bed. Price: AUD 535 (was AUD 663). Includes taxes and charges.
- A by Adina Sydney:** Superb 9.1 (209 reviews), Location 9.6. Studio King, Entire studio • 1 bathroom • 27m². 1 extra-large double bed. Price: AUD 1,110. Includes taxes and charges.

⇒ Externalising what are internal cost in traditional business models

Key incentives to move to demand side:

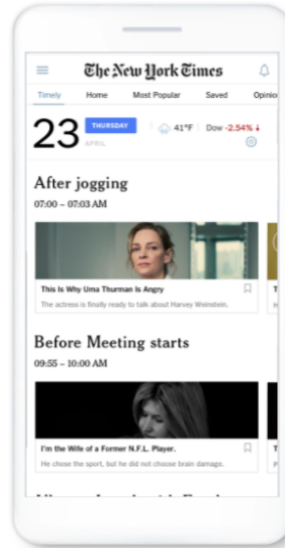
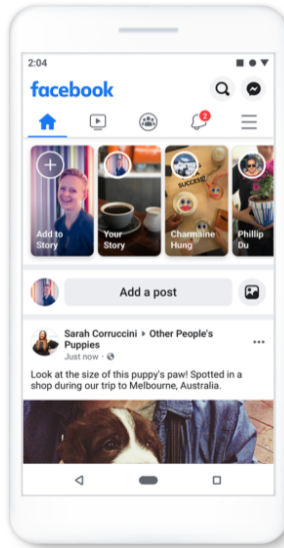
- Higher personalisation, convenience and lower cost

**Facebook:**

2.5 billion users create content that competes with the content of traditional content creators such as (online / offline) news papers, magazines, media

Content creation cost negligible

Incentive for user: engaging, fast way to communicate with many contacts at once

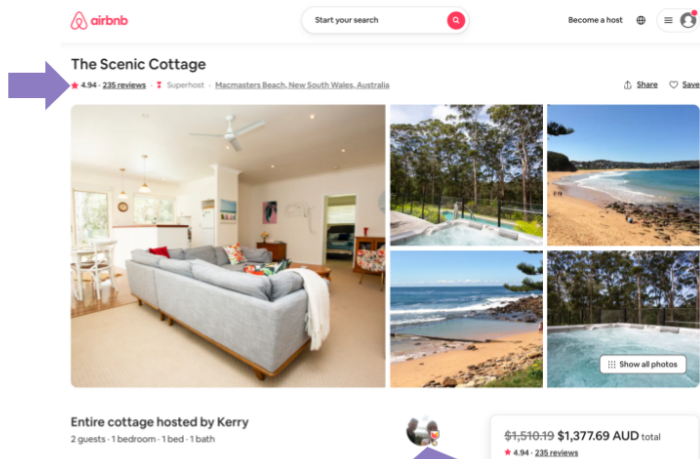


**New York Times:**

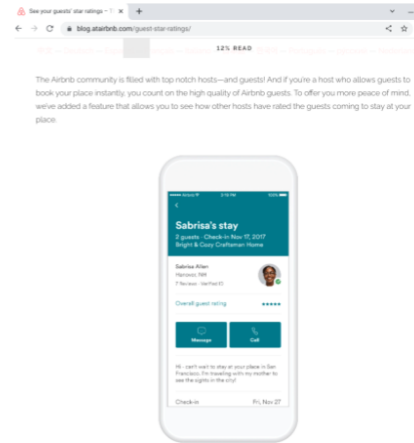
1,600 salaried journalists professionally create content

Content creation cost one of the major cost items

## Example: Airbnb



Hosts / properties get rated



But guests get rated too

## Example Airbnb: search cost

The screenshot shows the Airbnb search results page for a weekend in February and March. The search bar at the top indicates the location and dates. Below the search bar, there are various filter categories such as Price, Type of place, Beachfront, Pool, Air conditioning, Wi-Fi, Kitchen, Free parking, Washing machine, Self check-in, Dryer, Gym, Dedicated workspace, and Breakfast. The main content area displays three property listings with their respective photos, titles, descriptions, and prices. A 'More filters' sidebar is open on the right, showing options for 'Rooms and beds' (Beds, Bedrooms, Bathrooms), 'Verified places' (Airbnb Plus, Airbnb Luxe), and 'More options' (Instant Book). A purple callout box on the right contains the following text:

Users can (and do) spend an inordinate amount of time searching for the "right" property

But it is made somewhat playful and exciting ... many filters and methods of searching to aid the search



## Example Airbnb: transaction cost - contract negotiations

**1** Entire home  
You'll have the villa to yourself.

**Enhanced Clean**  
This host committed to a rigorous cleaning protocol developed with leading health and hospitality experts. [Learn more](#)

**Self check-in**  
Check yourself in with the lockbox.

**Free cancellation until 9:00 AM on 21 Oct**  
[Get details](#)

We have furnished this home for people who want to relax in comfort close to a wonderful child and pet friendly beach. Everything including a spa is there for your use. Electronic access via your mobile, NBN, 65cm TV, WiFi A/C etc and a walk to the shops. This home is with some conditions also pet friendly. We have also added an additional toilet in the garage and an outdoor shower to try to keep sand out of the... [read more](#)

[Contact host](#)

**2** Sleeping arrangements

<b>Bedroom 1</b> 1 queen bed	<b>Bedroom 2</b> 1 double bed, 1 single bed	<b>Common spaces</b> 1 double bed
---------------------------------	--	--------------------------------------

**3** Amenities

Wi-Fi	Free parking on premises
Kitchen	Hot tub
Pay TV	Breakfast
Air conditioning	Laptop-friendly workspace
Hair dryer	Dryer

**4**

**\$658.52 total** + \$94 (30%)

CHECK-IN	CHECK-OUT
22/10/2020	25/10/2020
Guests	1 guest

[Reserve](#)

You won't be charged yet

\$180.00 x 3 nights	\$540.00
Cleaning fee	\$30.00
Service fee	\$88.52
<b>Total</b>	<b>\$658.52</b>

[Report this listing](#)

**Please sign here:**

-----

**(Name, Date)**

The contract negotiations between host and guests involve many items and are to be agreed on prior to the booking:

1. Type of home, etc
2. Bedrooms
3. Amenities (here: 47)
4. Dates & price
5. And more ...

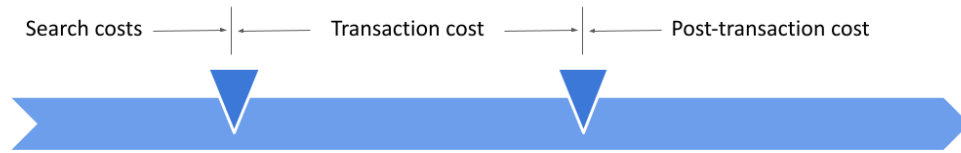
If Airbnb told you that you are negotiating a contract with your host / guest, would you still do it??

But it is essentially what you are doing ...

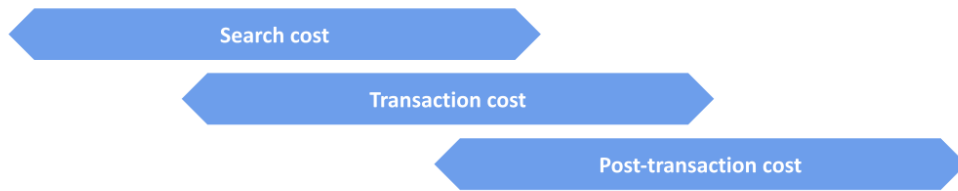
## Example Airbnb: Post-transaction cost - trashed home



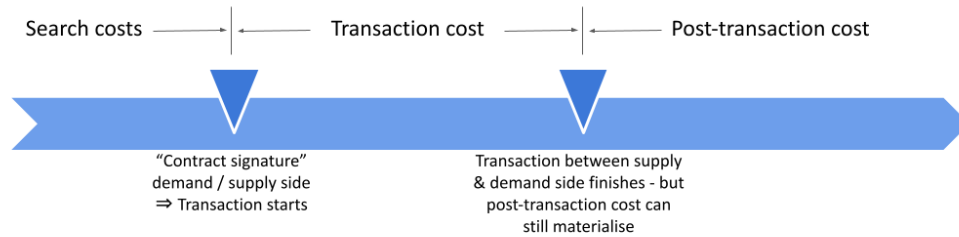
## Search, Transaction & Post-transaction costs



Search, Transaction & Post-transaction costs can be thought of as being sequential  
... but depending on the type of platform the phases can also overlap



## Search, Transaction & Post-transaction costs



Search, Transaction & Post-transaction costs can occur on several levels:

1. In comparison to traditional methods of delivering the same / very similar value proposition
2. In comparison to other platforms (competitors) that are doing the same
3. On the level of the app / website

# Examples / detailed resources

## Resource 1: Search, transaction cost additional details



*Your notes:*

# Facebook

{ Search Costs  
Transaction Costs  
Post-transaction Costs }

*We are looking at search/(post-)transaction costs from a user-to-user perspective but this includes influencers as well (esp on Instagram). We are comparing these costs to other forms of social media and/or messaging / keeping in contact. Keep in mind that the term "costs" can include efforts, time, skills, knowledge, money and other resources.*

## Search costs

It is very easy to communicate with any of your contacts. However, unlike Twitter, you can only write to your contacts (or those that allow via privacy settings).

Search costs are, however, very low in that Facebook will display content on ones news feed that it thinks one will engage with (incl ads)

Consuming content

## Transaction costs

Finding content to engage with comes at low cost and, in fact, the various ways of nudging to contribute even make the costs "negative"

Cost can occur when one engages with spurious (or even dubious) content. Platform health is important

Contributing content

## Post-transaction costs

The transaction costs still continue after it's completed.

Posts can get likes or negative comments, harassment, bullying. Other post-transaction costs can be being misinformed and acting against one's own best interest, etc

**Search and transaction cost reduction are some of the most important elements of the platform business model; post-transaction cost reduction is an important trust booster**

### Consuming content:

1. Easiest form is to just read one's feed. The algorithms have display for each user what it thinks will be most engaging
2. Facebook displays increasingly on social (i.e. content from contacts). Instagram has a wider mix of social and "media", i.e. content from influencers, VIPs, brands, etc
3. Messenger/Whatsapp are (almost) purely contact based (plus some ads). Easier than calls in that one can send message anytime and wait for response when convenient to the other
4. Content and posts with comments from friends displayed prominently so that engagement can continue (or even virality)

### Contributing content:

5. Responding to consumed content, sharing, liking, adding emojis are very easy, incl interacting with one or multiple contacts

### Consuming content:

1. Basically, scroll down until a topic of interest is found. As users engage with topics and users, the algorithms learn about the user's interest and present more topical content in future
2. Ability to unfollow/block users to stop spurious content and reduce transaction cost (it is much better than broadcast media in any case, but will get better and better as user's interest graph "learns")

### Contributing content:

3. Ease of posting content (text, photos, creating albums, tagging friends & locations, etc) seen by friends
4. Facebook prompts to post, displays notifications, nudges to post, stimulates responding, displays who is active, etc

### Consuming/contributing content:

1. Facebook runs a continuous platform health initiatives with algorithms and thousands of reviewers, suspends millions of accounts yearly
2. Engaging 3rd party fact checkers in the identification of fake accounts
3. Racing with bad actors in improving (machine learning) algorithms to detect fake accounts and content
4. Balancing with freedom of speech
5. Allows user to: (a) Reporting abuse, (b) block users (c) moderate responses
6. Closing of API loopholes
7. Significant activities for platform safety, digital wellbeing and community standards

*Course: Best Digital Technology Business Models Today*

*© Dr Murat Uenlue, [Innovationtactics.com](http://Innovationtactics.com); Strictly for personal use only*



## Search, Transaction and post-Transaction costs (examples)

You can find a lot of platform-specific examples in the respective case studies. But for our purposes here, we are harmonising the key user activities into the following phases: search for content, consume and/or contribute content, act on content.

All these types of activities can have elements of search, transaction and post-transaction costs involved. You can't surgically separate it. But search costs are likely more frequently associated with searching for content, transaction costs with consuming/contributing content and post-transaction costs with acting on content (but note, all three phases can have all three types of costs). Here are some examples

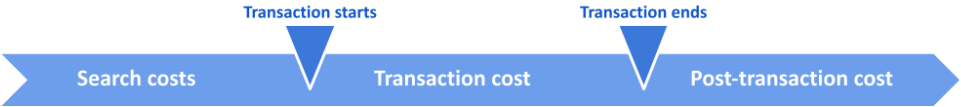


Search for content	Consume/contribute content	Act on content
<p><b>Targeted search:</b> Search platforms are typically used for targeted search via keywords. This is also possible on Social (e.g. hashtag on Twitter) but not the predominant search mode</p> <p><b>Explorative search:</b> Scrolling through News Feed is explorative search and the most common way to identify content to engage with on Social platforms. Presenting previews is a form of explorative search on Search platforms</p> <p><b>Social search:</b> Search can be conducted by asking close or wider connections on Social or via forum results on Search</p> <p><b>Content ranking:</b> All platforms use ranking algorithms for the presentation of content irrespective of the search mode. Ranking algorithms are proprietary and a secret of the platforms</p>	<p><b>Previews</b> help to get a glimpse into a post without having to read the entire thread. Like counts and other signals can help to decide whether or not to engage with the post</p> <p><b>Digital properties</b> can offer key functionality on the result page maps, hotels, shops, etc</p> <p><b>Following</b> gets the right content into one's News Feed (without search). "Unfollow" or "Show less often" options when no longer desired</p> <p><b>Ease of contributing content</b> is crucial as it is the "harder" activity</p> <p>Search: All webpages crawled and indexed automatically</p> <p>Social: no need to select contacts before posting. All posts have an input field to comment, emojis, liking, etc</p> <p>Ease of posting photos, videos without text</p>	<p>Post-transaction costs range widely, from getting (credit card) data stolen to bad medical advice. Platforms aim to not link to <b>dubious sites</b> through algorithms, user reports and human efforts</p> <p>Privacy: Social allows communication to individuals, groups or all contacts to reduce <b>costs of contributing content</b>. Snapchat encourages spontaneous posting through deletion after 24 hours</p> <p><b>Privacy:</b> all platforms give more control over one's data</p> <p>Generally, platforms take increasing <b>responsibility for 3rd party content</b></p> <p>We would <b>exclude platform manipulation</b> (e.g. fake news) from this as it's better to see them as wider negative externality rather than the outcome of a single transaction</p>

*Course: Best Digital Technology Business Models Today*

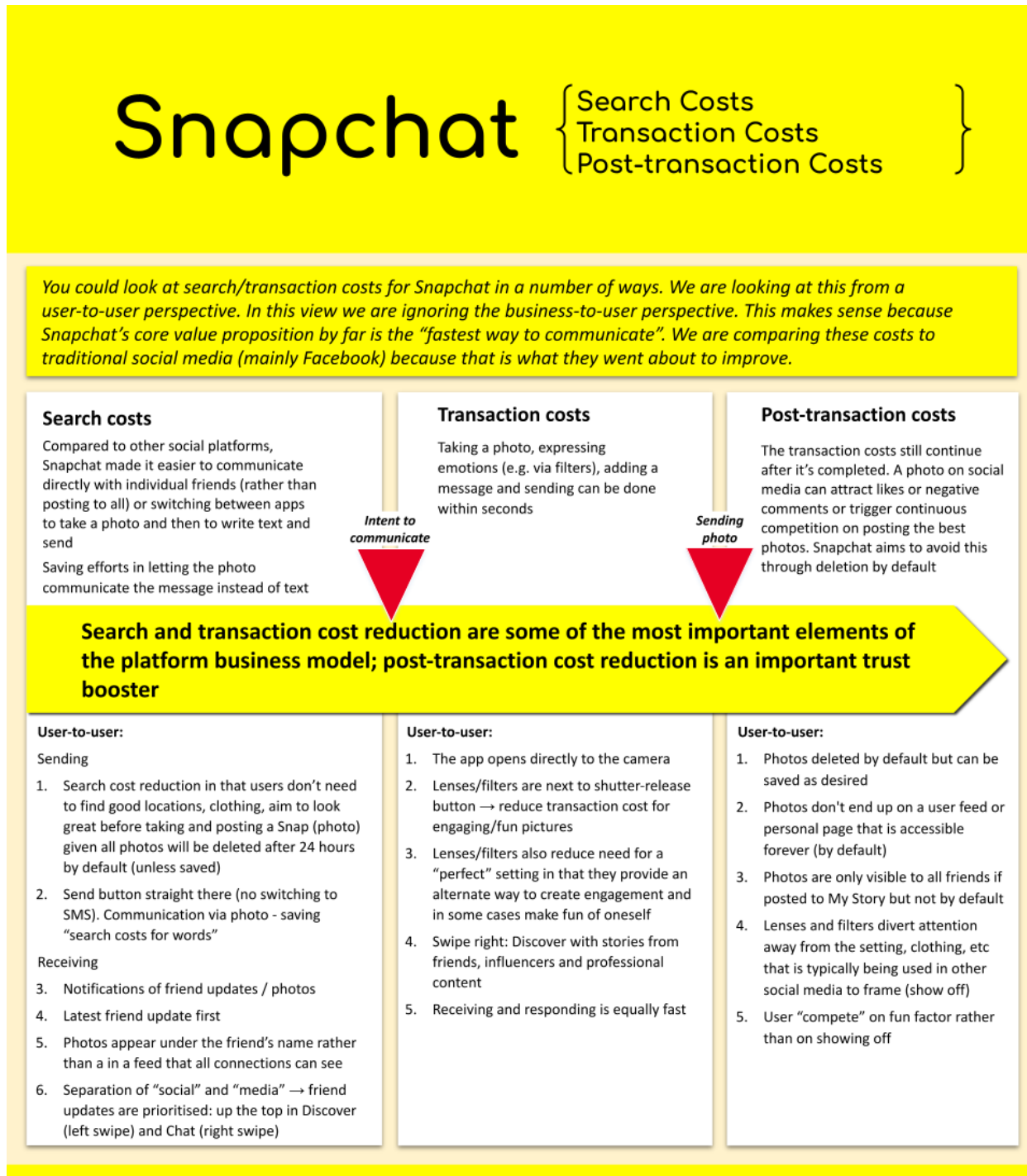
*© Dr Murat Uenlue, [Innovationtactics.com](http://Innovationtactics.com); Strictly for personal use only*

## Resource 2: Common types of Search, Transaction cost savings



<p>Awareness</p> <p>Time saving</p> <p>Online instead of in-person</p> <p>Selection &amp; filters</p> <p>Search algorithms</p> <p>Recommendation algorithms</p> <p>Matching of concrete demand-supply side participant</p> <p>+ Reward: often more personalised outcomes than the traditional method</p>	<p>Reduced communication (often none) between demand &amp; supply side</p> <p>Clear pricing (instead of negotiations)</p> <p>Clear scope (what's included) without need for discussion</p> <p>Clear transaction status (to both sides)</p> <p>Clear guidance to both sides on expectations</p> <p>Reminder systems</p> <p>Payments through platform (escrow-like perception)</p>	<p>Clear T&amp;Cs</p> <p>Communication mechanism between demand and supply side to avoid risks before materialising</p> <p>Ratings (sometimes both ways) to address items of dissatisfaction</p> <p>Insurance for typical risks</p> <p>Dispute resolutions and refunds managed by platform not between participants (often favoring demand side)</p>
--	--	--

## Resource 3: Search & Transaction Cost Examples: Social vertical



*Course: Best Digital Technology Business Models Today*

*© Dr Murat Uenlue, [Innovationtactics.com](http://Innovationtactics.com); Strictly for personal use only*

### Search costs

The user may be searching for ideas, knowledge and/or products/services. They may have high, low (or no) purchase intention

Businesses want to connect with the right type of user for their product/service

### Transaction costs

It makes sense to define the start of transaction from moment the user (intentionally) clicks on a business pin (or business page). Assuming that their discovery journey has moved them from low to high(er) purchase intention

### Post-transaction costs

The transaction costs still continue off-page (from Pinterest) due to the fact that one cannot purchase within Pinterest

Post-transaction costs start incurring after the users actually purchases something

*Clicking business pin (still within 'Pinterest')*

*Referral to advertiser's page*

**Search and transaction cost reduction are some of the most important elements of the platform business model; post-transaction cost reduction is an important trust booster**

#### For User:

1. Search box
2. Related search for guidance
3. Following other users or their boards
4. Notifications
5. Pinterest Lens
6. UI/UX, presentation layer
7. Display of relevant and personalised results (incl ads)

#### For Business:

1. Targeting by demographic, interests, keyword, location and other
2. Creation of own boards by product/topic
3. Shop the look and various other business tools

#### For User:

1. Planning tools: boards and sections on board for projects
2. Display of relevant ads only to avoid clicking back and forth
3. Ideally, the ads and pins have the relevant results (e.g. price and other product properties are displayed), filtering may be added
4. More relevant choices on the business' board

#### For Business:

1. Targeting by demographic, interests and other
2. Pinterest (ideally) delivers a user with a strong interest in the company's products due to the fact it knows the user's taste

#### For User:

1. The user can get to a business via an ad or organically via a non-ad pin
2. Where it's via an ad, the expectation is that Pinterest has done due diligence and that the offering was accurate, to avoid fraud/counterfeit and that the business will manage issues, etc \*
3. The buyer is happy about the purchase because it was an inspiration-led journey (not a high-pressure sale)

#### For Business:

1. Good probability to delivery high-value leads due to taste graph
2. Ideally: good business-user match and high lifetime value customer

*\* Realistically, this is not the case yet*

## **Resource 4: Search & Transaction Cost Examples: Asset & Service sharing**

Value propositions

Value propositions to riders

Uber Eats value proposition to consumers

Uber Eats value proposition to consumers

Value proposition to drivers (Uber Rides & Eats)

# Uber

{ Search Costs  
Transaction Costs  
Post-transaction Costs }

Search, transaction and post-transaction costs can occur at several levels of the business model: (1) the value proposition in comparison to alternative offerings (e.g. taxi, public transport); (2) on the level of the actual business / user processes; and (3) on the level of the App. Here are some examples; an exhaustive list may exceed 10x of the below. This is a must-do activity in the design of a business model and App.

### Search costs

Search costs begin when the riders start to look for transport options to a destination

For drivers they start when they look for riders (e.g. a taxi cab looking out while cruising)

### Transaction costs

The transaction generally starts when a user enters the vehicle.

Several options now to trade-off time cost vs monetary cost: UberX, Express Pool, e-scooters, etc

Time and cost known upfront for peace of mind

### Post-transaction costs

Transaction costs still continue after search is completed. User that act on the website (e.g. purchases) or based on website content may be remorseful towards Google when directed to bad pages or even just concerned about privacy

Entering the vehicle

Leaving the vehicle

**Search and transaction cost reduction are some of the most important elements of the platform business model; post-transaction cost reduction is an important trust booster and important for repeat transactions (returning user)**

1. Low waiting times compared to search for taxi. Average waiting time upon order: 3-5 mins in most cities
2. Surge pricing allows to get a ride within a short time even if other transport modes beyond capacity but comes at a price
3. Driver: no customer acquisition costs, low idle times between rides
4. For driver: surge pricing areas and notifications for better earnings (but unattractive times → high post-transaction costs, e.g. fatigue)
5. Eats: categorised, filters, search functions, favourites, reorders
6. Looking for a ride: current location pre-populated, only destination to be entered, saved favourites

1. Exact pick-up, drop-off point (no walk on either side) - or use of Pool to save money but some walk
2. Designated pick-up / drop-off points with malls, airports, stadiums, events
3. Estimated pick up and arrival time, ability to see the driver approaching, routing tips for driver via App to avoid traffic
4. Generally lower cost of the ride compared to taxis. But higher compared to public transport
5. Express Pool: lower price than UberX
6. New Mobility: lower price and potentially cheaper and faster than public transport
7. Eats: average delivery time 30 mins
8. Eats (for consumer): larger portion of delivery cost paid by restaurant

1. Upfront fare estimate → no bad surprises at the destination; reducing the fear to being "take for a ride"
2. Insurance by Uber
3. Cashless payment
4. Support: for driver (e.g. issues mgmt); & rider (e.g. forgotten items, etc)
5. Drivers: real-time earnings tracking, weekly / daily payouts, in the US: up to 5 timer/day pay out
6. Safety features (rider): driver background checks, driver & car details, share ride details w/ friends prior to ride, emergency button;
7. Safety features (driver): emergency button, GPS tracking, user rating, reporting



*Course: Best Digital Technology Business Models Today*

*© Dr Murat Uenlue, [Innovationtactics.com](http://Innovationtactics.com); Strictly for personal use only*



Search Costs  
Transaction Costs  
Post-transaction Costs

Search, transaction and post-transaction costs can occur at several levels of the business model: (1) the value proposition in comparison to alternative offerings (e.g. hotel, traditional bed & breakfast); (2) on the level of the actual business / user processes; and (3) on the level of the App. Identifying these is a must-do activity in the design of a business model and App. Here are some examples.

### Search costs

Reduction of search costs includes finding users who are willing to participate in short-term leasing among peers.

The scale of the network is essential for reducing search cost/efforts and needs to exceed critical mass by location or other search factors.

Booking

### Transaction costs

Transaction costs are prevalent in the reservation process and thereafter.

It includes things like agreeing on the exact "contract" terms.  
There is no contract between host and guest, each has a contract with Airbnb.

Checking in/out

### Post-transaction costs

These costs/risks typically materialise after the booking and prior, during or after the actual stay.

Many measures are pre-emptive and start early to reduce the likelihood of risks materialising.

Search and transaction cost reduction are some of the most important elements of the platform business model; post-transaction cost reduction is an important trust booster and important for repeat transactions (returning user)

#### For hosts:

- Finding the desired type of guests who are (1) ID verified, rated; (2) accepting the house rules; (3) accepting cancellation rules, amenities, service levels, etc
- Professional photoshoots
- Availability calendar

#### For guests:

- Amount of listings and choice
- Clear listing of all included amenities, service levels
- Accurate descriptions of the property
- Airbnb rules around stays
- Many filters: by location, property type, dates, etc

#### For hosts:

- Ease of joining process
- All reservation transactions
- Booking tools
- Guest rating
- Select cancellation policy
- Fees only occur when there is revenue (no upfront cost)

#### For guests:

- Booking process
- Clear list of amenities, services
- Host / property rating
- Location map
- Clear check-in process

#### For both:

- Communication via App
- Payment process

#### For hosts:

- Insurance
- AI scanning of reservations
- Safety tips
- Cost-free smoke detector
- 24/7 support
- Ability to set house rules
- A lot of resources on website

#### For guests:

- Hospitality standards
- Insurance
- Certain accident coverage
- Ability to change booking in line with cancellation policy
- Ability to review / rate if not satisfied

#### For both:

- Counterparty ID checked

*Course: Best Digital Technology Business Models Today*

*© Dr Murat Uenlue, [Innovationtactics.com](http://Innovationtactics.com); Strictly for personal use only*