Airbnb Case Study

Unique, authentic places to stay

Insights into

Business Model - Financials - Economics - Strategy

Dr Murat Uenlue

DigitalBizModels.com

Overview

Click any of the links above to jump to the respective section

© Dr Murat Uenlue

DigitalBizModels.com

For personal use only, no distribution or uploading permitted.

Study Aids

Fast track guide

Our case studies are pretty dense simply because we can't learn about a multi-billion dollar company in five minutes. This fast track sheet will give our valued readers a shorter learning path that can reduce an **initial** learning iteration to ~2 hours! This is centred around the topics where Airbnb plays an extraordinary role in the industry of digital business models.

We strongly recommend a second iteration reading the entire case study.

Click the links in the left column to jump to the respective section:

Pages in case study	Comments
Value proposition guests & hosts	The first few VPs each are the most important We will refine the financial goals for hosts in the economics section due to its importance
Key partners	Note importance of super hosts Note importance of their extensive community work Also take note of Corporate travel partners & Airbnb-friendly apartments
Key activities	Consistency and ease of use for supply & demand side Ongoing product developments
Key assets	Platform & product enhancements
Segments	Note segmentation by motivation and use cases
Key channels	Importance of WOM & ratings/reviews!
Customer r/s	R/S to cities communities & legislative / regulatory are very important strategic growth opportunities
Economics & markets	**I don't recommend skipping anything here - this is the most important part of this case study.**
Disruptive innovation?	Is Aibnb disrupting lodging?
Strategy	Note the importance they call out on their platform & digital assets
Value chain & Details	If you are building your own platform, this section should help you to save a lot of time

Airbnb Case Study - Focus areas

We are covering the business model, strategy, microeconomics and financials extensively. Within that, some focus areas are:

Key partners

Hosts, Superhosts, Communities, Biz travel managers

Key activities

Consistency (hosting), minimise risks, network effects, new offerings

Key assets

Network effects, brand, tech assets

Value proposition

For guests:

Choice

Value

Authenticity

For hosts:

Income

Good guests

Tools, resources

For both:

Risk reduction

Customer segments

Geo-demo, behavioural, by motivation(!), use cases

Customer relationships

Safety/security, Support, Issues mngt; Good neighbour & citizen

Channels

Word-of-mouth, Ratings / Reviews, minimal intermediaries, App/site

Cost Structure & Financials

Cost of revenue, R&D, G&A, Sales & marketing

Revenue

Commissions, Urban / suburban / rural (rural highest), pricing

Industry / competitor analysis

Hotel metrics, price comparison, Airbnb metrics in urban / rural, pricing strategies,

Substitution, hotel metrics over time → disruptive dynamics(?)

Strategy: Disruptive innovation(?), Value chain, Activity map

Economics: ADR, Occupancy, RevPar, Unit cost hosts, cost of ownership, Host types(!), Search / transaction cost, Network effects

Survey: why people use Airbnb
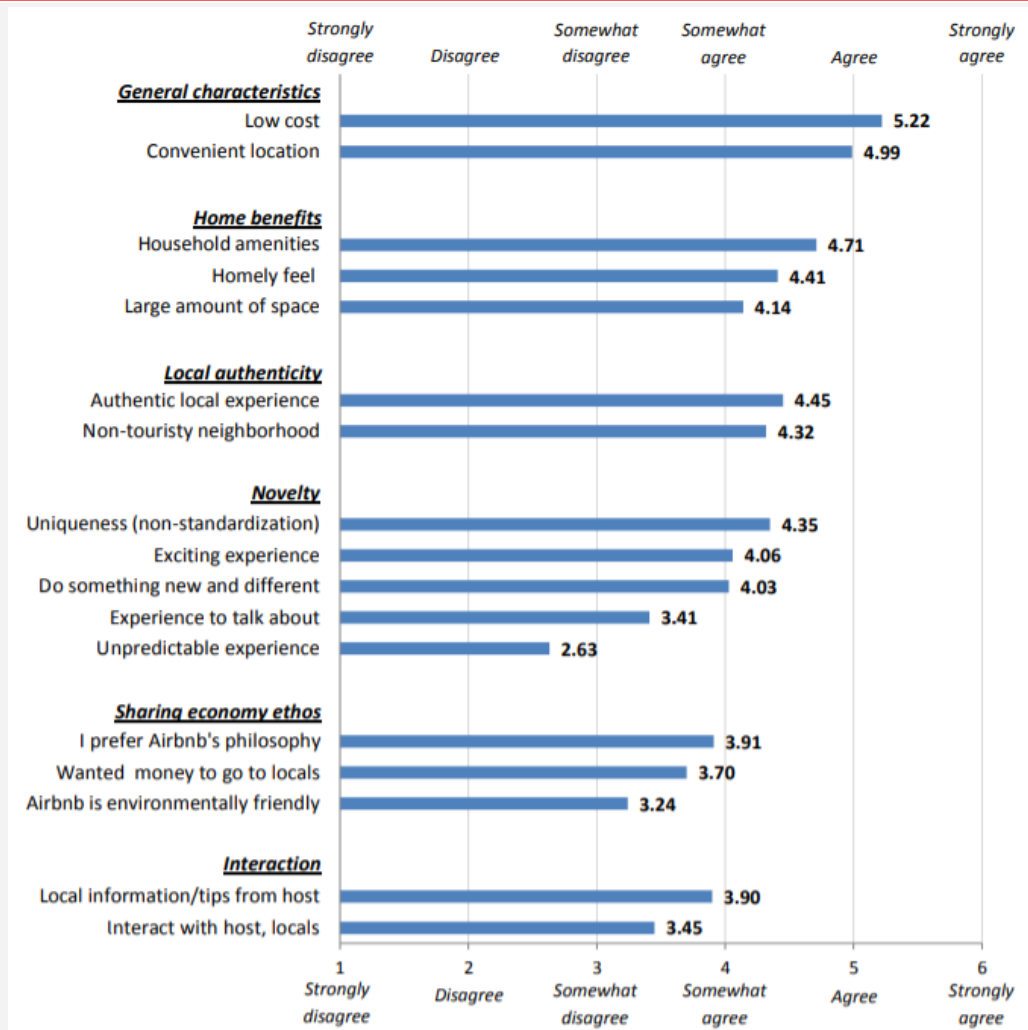
The methodically most sound (scholarly) survey - though from 2016 -, shows the perceived value propositions (a later study comes to similar results). The author comments on the "unexpected" popularity of the exact location which I think is part of the large proposition of "choice". It's the typical case of a platform business model uncovering hidden demand drivers by providing choice.

*"The strong agreement with the 'convenient location' motivation is perhaps **unexpected**, given that Airbnb listings are often scattered in residential neighbourhoods rather than clustered like hotels in a downtown tourism core. It appears that many Airbnb guests may select the service in part because of the availability of units in **geographical locations not well served by traditional hotels**, such as a residential area **near a friend** or in the **part of a city with particularly attractive characteristics (e.g., preferable shops and restaurants).**"*

Value propositions for hosts

- **Income generation**: There are different motivations for hosts but income plays a role. Some hosts list one of their rooms on an occasional basis that they would never sub-lease on a long term basis (**extra income** at some inconvenience). Others lease their property that they don't use themselves because they can achieve **higher income than through long-term** rentals (though occupancy rates, involved workload, etc also play a role).

- **Risk minimisation:** The big one for hosts are all the risks to their property, their interiors and potentially themselves (the latter applies to guests as well) and potential risks to the guests on their premises. Airbnb offers solutions/mitigators to many of the concerns & risks, e.g.:

  - **Insurance** through Airbnb (though not everything is covered).

  - Hosts can request various forms of **surety**: (1) Government ID*; (2) Verified phone number*; (3) message from guest; (4) Positively reviewed by other host(s). (*presented to Airbnb, not the host.)

  - Hosts can set out **house rules** that guests need to confirm adherence to prior to booking (e.g. no parties, no smoking, pets, etc).

$1,000,000 USD property damage protection

In the rare case of property damage, Airbnb's Host Guarantee provides free protection of up to $1,000,000 USD in property damage for every booking, every time. Claims can be filed directly through our Resolution Centre.

Learn more about Airbnb's Host Guarantee

Insurance against accidents

Airbnb provides free Host Protection Insurance covering liability claims up to $1,000,000 USD. This insurance is for the unlikely event that someone files a lawsuit or claim against you for bodily injury or property damage that occurs in a listing, or on an Airbnb property, during a stay.

Learn more about Host Protection Insurance

✓ Completely free coverage

✓ Automatically applies to every reservation

✓ Claims can be filed directly through Airbnb

- **Ease of [joining](#) the platform** which includes making it as simple as possible with guidance through the process, resources, case studies, clarity around hosting [requirements](#) as well as support (live chat, email, phone). This doesn't preclude safety checks, etc.

- **Good presentation** (but not misrepresentation) of one's property through [professional photoshoot](#) (available in many locations and paid for by hosts).

- **[Management tools](#) for hosts** basically a mini reservation management system**:**

  - All listing details with photos, amenities, etc;

  - Price setting (can differ by days, provide discounts, include service charges, etc);

  - Availability status in the calendar;

  - And [additional tools](#) for hosts with several properties.

- **Customer acquisition cost:** Depending on the type of host, Airbnb may be the cheapest way to acquire customers:

  - **Hotels** can sell rooms through Airbnb at 14-16% commissions which for many may be cheaper than through the large OTAs.

  - Property owners can **multi-home** by using, e.g. classifieds, other home rental platforms, etc and only use Airbnb when it is more beneficial than the others.

  - Hosts incur **costs only when Airbnb generates revenue** for them.

- Ability to use **host service providers** (non-affiliated 3rd parties) from cleaning only to full management.

- Experience of meeting new people (if desired).

Other Value Propositions

One of the most common ways to innovate and grow is to expand into several adjacent, complementary, related or even loosely related areas. The mantra of focussing on "core competencies" as touted by many experts only a few decades ago (and still prevalent in many management layers) is not part of the playbook of today's startups.

Airbnb Work, Plus and Luxe are new tiers based on the **same platform infrastructure,** thus come at the same cost base as such. **Plus** has additional cost drivers in the human verification of homes. **Luxe** is their most premium product, has extensive human checks plus a dedicated trip designer and add-on (read: ancillary) offerings.

- HotelTonight is Airbnb's acquisition to enter the Online Travel Agency space through this meta engine.

- Originally started as a last-minute booking App (e.g. after a long night out with friends(, it's now also popular for booking ahead of time as well.

- Key value propositions are discount prices.

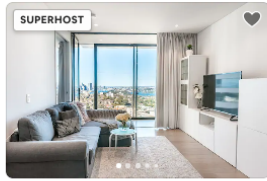- Easy interface that minimises steps to book (ideal for when the user is not in the mood for lengthy research).

Airbnb for Work

Popular with business travellers
People travelling for work have rated these places highly

SUPERHOST

★ 4.83 (486)
Entire apartment · Darlinghurst
Central I Pool I Rooftop Harbour Views
~~$1,228~~ **$339 AUD total**
🏷 New lower price

SUPERHOST

★ 4.81 (156)
Entire apartment · St Leonards
FREE PARKING Modern apartment Sydn...
~~$522~~ **$436 AUD total**
💎 Rare find

★ 4.73 (170)
Entire apartment · Neutral Bay
1 Bedroom Apartment North Sydney - Fr...
~~$312~~ **$284 AUD total**
💎 Rare find
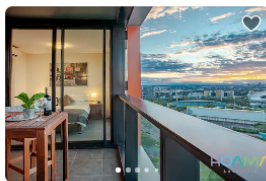
★ 5.0 (3)
Entire apartment · Homebush
HOAMA - Honeymoon Sweet Apartmen...
$402 AUD total

SUPERHOST

★ 5.0 (46)
Entire guesthouse · North Narrabeen
North Narrabeen Tree House
$642 AUD total

SUPERHOST
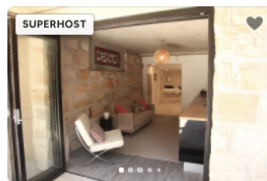
★ 4.93 (243)
Entire apartment...
Superb Space, Comfort and Location
$457 AUD total

Airbnb's business traveller offering aiming to capture a part of that market:

- Work-ready places with respective amenities, e.g. WiFi, "laptop-friendly workspace", etc.

- Kitchen, etc can avoid having to eat out.

- "Home" feeling useful for frequent travellers.

- Listed among other properties (low cost base) and filterable.

Airbnb Plus

PLUS
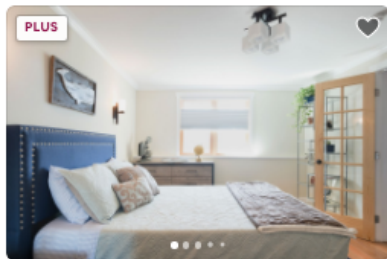
★ 4.95 (288)
Entire house · Outer Sunset
Private, Remodeled Home Close to Golden Gat...
$211 AUD / night

PLUS

★ 5.0 (17)
Entire apartment · Civic Center
Civic Center Views from a Contemporary City ...
$14 AUD / night
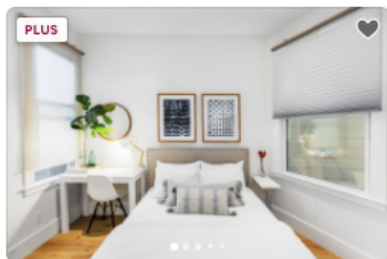
PLUS

★ 4.96 (353)
Private room · Mission District
Explore Valencia Street from a Clean Room in a ...
$136 AUD / night

PLUS

★ 4.87 (87)
Entire apartment · SoMa
Modern SoMa Loft & Roofdeck- 2BR/2BA w/ Ci...
$403 AUD / night

Plus offerings may be displayed along with normal places or filtered for:

- Airbnb's high quality offerings;

- "Thoughtfully designed";

- Exceptional host;

- Human inspected & verified;

- Stylish interiors;

- PLUS badge is an incentive for hosts to improve their homes (higher pricing power).

Airbnb Luxe
"pristine, expertly designed homes with high-end amenities, services and dedicated trip designers"

100+ stays
Punta Mita

100+ stays
Tuscany
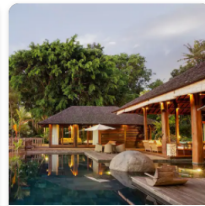
150+ stays
Bali

100+ stays
Los Angeles

120+ stays
Swiss Alps

120+ stays
Costa Rica

Luxe is Airbnb's (very) upscale offering of human verified homes with personalisation and according pricing:

- "Statement-making homes with exceptionally styled interiors."

- Properties are verified for pristine condition (300-point check).

- Private airport pick-up, in-person welcome.

Housekeeping

Airport transfer
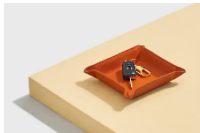
Car rental

Fresh groceries

Childcare

Chef

Butler

Driver
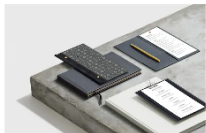
Restaurant concierge

Spa services

Equipment rental

Family gear

Add-on services are selectable through trip designer

- Tailored services (e.g. personal chefs, massage therapists, local team);

- Luxury amenities;

- Custom itineraries by dedicated trip designer;

- Stocked home.

-

Technology example

From an innovation management perspective, we are always interested in how technology enhances the business model. Here is one [fascinating example](#) that shows how machine learning algorithms have improved guest-host matching in a way that actually led to a higher rate of booking conversions.

Optimisation of guest-host matching algorithms

The model learns, based on previous preferences, which type of booking requests different types of hosts are more likely to accept. The search algorithm promotes those that are more likely to lead to a conversion in the results.

The analysis has found, for example, that hosts in large markets prefer to have as little gap days as possible whereas those in small markets prefer – or at least didn't mind – some gaps.

Another optimisation step looked at preferences among hosts who prefer to be given short notice to those preferring to have more of a heads-up prior to accepting bookings. And this too showed differing preferences which could be used in the display of search results.

The algorithms were adjusted to these findings leading to improvements in conversion rates.

After implementation of these host preferences into the search algorithm, **conversion rates went up by over 3.75%.** Clearly, instant bookings and other changes will have had an effect on these outcomes over time. But at the time (2015), this was a remarkable achievement amplified by the scale of the Airbnb platform. It is just a small example that gives us a glimpse into the ongoing optimisations over time.

Customer segments

As a multi-sided platform business, Airbnb needs to segment both sides: the guests as well as the hosts. Depending on the purpose, Airbnb likely uses classic market segmentation as well as micro segmentation. Identified segments can be used for a variety of purposes, including marketing, developing new products and important business growth decisions and more.

Potential ways to segment **guests:**

- **By geo-demographic:**

    - Gender, Age brackets, education, income bracket, etc.

    - Family situation: single; couple; family with children.

- **Behavioural:**

    - Trip type: Business travel; leisure travel; visiting friends/family; backpacking.

    - Rental type: Shared space; private room; entire home/apartment.

    - Accompanying guests: Number & type (spouse, kids, parents, etc).

- **Motivation-based:** primary reasons for using Airbnb (more shortly).

- **Interest:** Types of activities that travellers engage in (esp leisure), particularly interesting for Airbnb Experiences / Online Experiences.

Potential ways to segment **hosts:**

- **Geo-demographic:** see above.

- By rental type and **type of accommodation provided**:

    - Private room, entire place; room, unit/condo, house, unique stays.

    - Tier: Plus, Luxe, for Work.

- By **location type and characteristics**: Urban, suburban, rural, exact location, proximity to amenities, etc.

- By **motivation to host**: Maximisers, opportunity seekers.

- By the types of **experiences provided**: food, craft, nature, activity, etc.

Traditional geo-demographic segmentation

Airbnb: Market penetration US by demo (shown also Uber)

Source: Pew Research Center (2016)

■ Airbnb ■ Uber

Demographic	Airbnb
Total (all US adults)	11%
Gender	
Men	10%
Women	13%
Ages	
18-29	11%
30-49	15%
50-64	10%
65+	6%
Ethniticity	
White	13%
Black	5%
Hispanic	9%
Education	
High school or less	4%
Some college	8%
College graduate	25%
Urbancity	
Urban	14%
Suburban	11%
Rural	6%
Income	
<$30k	4%
$30k-$75k	9%
>$75k	24%
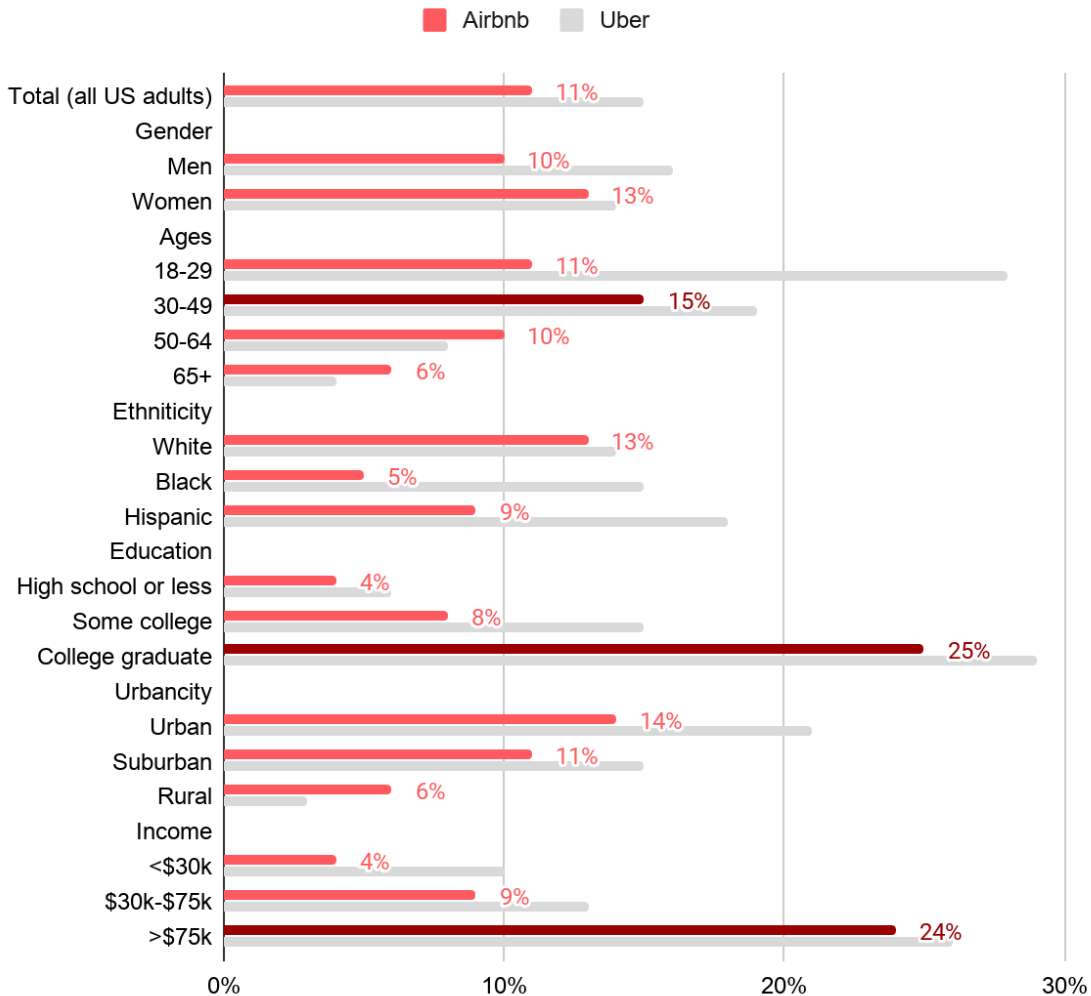
This [survey](#) by the Pew Research Center (note it's from 2016) shows three prevailing demographic factors are (dark red): educational attainment (college grad+); income (>$75k); age bracket (30-45) correlate particularly high with Airbnb market penetration. There are some overlaps with Uber and also quite a few differences as you can see.

Segmentation by travel type: business travel / bookings

Segmenting by travel type (leisure and business travel), we see from a Morgan Stanley research that both types are increasing. We will discuss their study in more detail later that sees market share capture (substitution) from hotels.

Airbnb: Trips by travel type
Source: Morgan Stanley

■ Leisure travel ■ Business travel

	2015	2016 (E)	2016 (A)	2017 (E)
Leisure travel	12%	18%	19%	25%
Business travel	12%	16%	18%	23%

E: Estimated; A: Actual
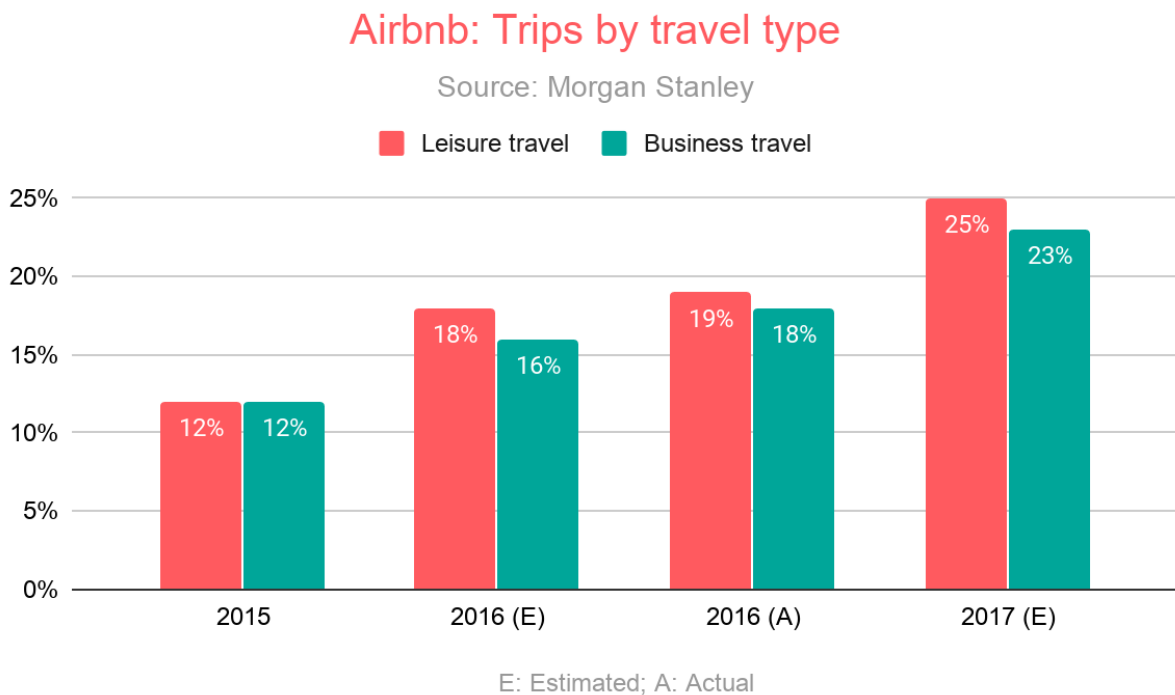
In 2017, Airbnb shared the following data points on this segment:

- More than 250,000 companies (in over 230 countries and territories) signed up to use Airbnb for work.

- In 2016 alone, the number of business trips tripled, ~15 percent of nights booked on Airbnb are for work.

A 2018 update showed significant progress

- 700,000 companies have had employees sign up **and book.**

- **Growth in bookings: 2015 → 2016: 300%; 2016 → 2017: 300%.**

Further segmenting bookings for work, [Airbnb comes to conclusions](#) that can be used for **behavioural** segmentation:

- *"Bleisure (combining business trips with leisure stays) – we continue to see people tack on weekend days to explore the cities they're traveling to. More than **30% of Airbnb for Work bookings in the past year include at least one weekend night**.*

- *Traditional business trips – a year ago, the average trip on Airbnb was six nights or more; today, the average stay with Airbnb for Work is about five days, and the fastest growing segment of trips is three nights or less. Business travellers are increasingly using Airbnb for shorter trips, which they may have booked hotels for in the past.*

- *Collaboration – nearly 60 percent of Airbnb for Work trips in the last year had more than one guest. Of the **60 percent of Airbnb for Work trips with more than one guest, nearly 40 percent had three or more guests**. Teams are travelling together to bond and collaborate.*

- *Mobility – we're seeing **extended stays and relocations** being booked on Airbnb for many different reasons and lengths of time — ranging from long business trips or training sessions that require several weeks away, to on-site projects that can last **several months to a year**. In the past year alone, we've seen stays with Airbnb for Work **14 days or longer grow nearly 3X**."*

Guest segments by motivation

The Airbnb study that I have referenced a couple of times, segments the market into 5 types of guests (money savers, home seekers, collaborative consumers, pragmatic novelty seekers, interactive novelty seekers) as follows:

	Money savers	Home seekers	Collaborative consumers	Pragmatic novelty seekers	Interactive novelty seekers
General characteristics					
Low cost	5.67	5.01	5.28	5.16	5.04
Convenient location	5.17	4.91	4.88	5.03	4.93
Home benefits					
Household amenities	4.36	5.52	4.18	5.04	4.20
Homely feel	3.13	5.05	4.66	4.54	4.51
Large space	3.64	5.20	3.53	4.37	3.64
Local authenticity					
Authentic experience	3.23	4.47	5.08	4.56	4.96
Non-touristy neighborhood	3.26	4.39	5.11	4.61	4.18
Novelty					
Unique experience	2.77	4.35	4.81	4.91	4.88
Exciting	2.88	3.66	4.17	4.78	4.89
New and different	2.86	3.46	4.23	4.85	4.86
Experience to talk about	2.43	2.96	3.47	4.15	4.08
Unpredictable	2.17	2.23	2.32	2.93	3.62
Sharing economy ethos					
Philosophy of Airbnb	3.11	4.17	4.56	3.87	3.79
Money goes to locals	2.86	3.76	4.77	3.58	3.51
Environmentally friendly	2.57	3.30	3.93	3.36	2.97
Interaction					
Local information/tips	3.09	3.92	4.88	3.03	4.78
Interact with host/locals	2.44	3.19	4.76	2.57	4.59

You can see distinct differences between these five groups. The most clear are the "money savers" which have one predominant motivation to use Airbnb whereas the other segments have more differentiated motivations.

Based on these categorisations, the author then describes the segments that he has identified as follows.

Unit cost

Now that we have transmitted our wishlist for the unit revenue side to Airbnb, we can do the same for unit costs.

Cost base for the hosts & customer acquisition cost (hosts)

When we looked at Uber, we found a statistical cost base of 72c per mile for the fully burdened cost base of car ownership. This included fuel, financing costs, maintenance, insurance and so on. And scratching the surface, we immediately found that this figure depends on many factors, such as vehicle type, etc and can range widely.

Trying to understand the cost base of Airbnb hosts is equally difficult but useful as we will see soon. Below are some of the most relevant costs.

1. **Mortgage cost or rental cost:** Many hosts might be paying a mortgage on the place that they are renting out (cost of ownership). Some might be subletting a place that they are renting to reduce their net [lease cost](#). Either way, this cost differs a lot by location and type of property.

2. **Depreciation cost of furnishing & fixtures, maintenance, renovations, etc:** These costs can be high but many will never calculate the full cost of it. Airbnb hosts know that good amenities can help charge higher. Very-well presented homes (in the right location) may be able to join Airbnb Plus. In the case of private rooms, the amenities are used by the host themselves but incur additional usage.

3. **Utilities:** marginal costs, such as incremental heating, electricity, water, internet usage, insurance, etc.

4. **Service cost:** which the host can pass onto the guest irrespective of whether they do it themselves or through a firm.

Many different cases exist for which Airbnb may want to find aggregate data.

Cost base for hosts (examples)

Top left: shared room two beds in Manhattan. Maybe after the kids moved out. Cost base for the host? Probably low/zero if the mortgage is paid off and/or the owners were not intending to sublet it before Airbnb existed (assuming this is their primary residence). Btw, these guys should have used a professional photographer.

Top right: An entire guest house (same premises as the primary residence of the owners) in the Central Coast area in Australia. Cost base? Again, very dependent on the owner. It may have been a "granny flat" previously (for the grandparents) or been built to host friends with no expectations of generating income. But it may have also been built taking up a mortgage with the intention of paying it down through short-term letting.

Below: Entire apartment in Australia. Cost base: presumably (very) high for mortgage costs and other costs. In this case, it's clear that the owner wants to make a premium over leasing the space out in a long-term rent.

Ideally, Airbnb would want to find a similar metric to "cost of transport per mile". The closest metric to this would be something like property or rental cost per square foot/metre.

These stats exist but have a wide range:

- **Low end:** Detroit with **$24 per square foot;**

- **High end:** San Francisco **$810 per square foot;**

- **Median: $123 in the US;**

- And then, of course, there are big differences within each of those depending on the suburb, street and the property itself.

Airbnb also needs to take into account long-term rental costs for their listings because they will need to be able to beat this by some margin to incentivise the host to list on Airbnb rather than in the long-term rental model with the latter being more convenient. We will talk about this in more detail shortly.

There are of course many real estate data portals from which Airbnb can source such data (here all current rental listings in Manhattan).

If you don't believe me that Airbnb will go into such details, you can check out this Airbnb engineering article which will show you that they go into far more detail than I have described here for the purpose of having a shot at **predicting the lifetime value of homes (i.e. the CLV of hosts) based on 150 factors.**

And what's the mix?

Here is also one [data point](#) (March '19) for the mix between rural, suburban and urban in terms of revenue. This gives us an idea of the listing mix based on what we have seen in the previous table.

Airbnb: Gross bookings (=host revenue) by destination types (month of March '19)
Source: AirDNA

	Rural	Suburban	Urban
Percentage	57.5%	15.0%	27.5%
Value	$1,320	$345	$631
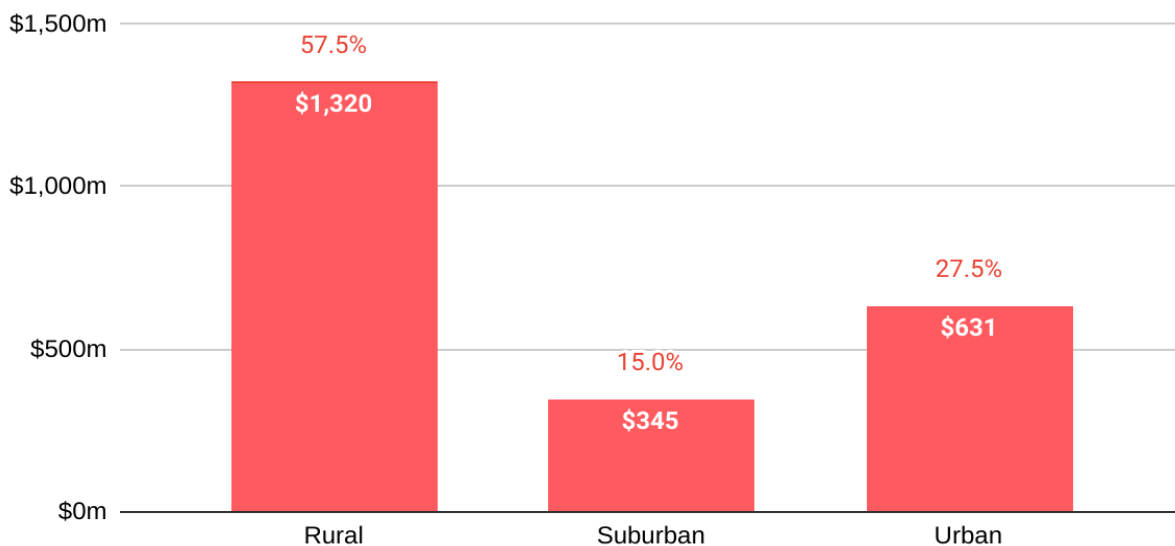
Summary

We finally hacked it! It is important to notice as an innovator that platform business models may **straddle two markets**. One puts a floor price that the innovator needs to beat to attract a supply side. The other market puts in a ceiling below which the innovation needs to stay to attract a demand side.

You can waste years of experimentation without ever having a chance to succeed if you don't understand the fundamentals of the markets that you are monetising in (sometimes it's not even easy to understand which market you should be monetising in).

So, here are two graphics that illustrate findings of the last two chapters.

Airbnb pricing strategy (example urban)

San Fran average **long-term rental (LTR) is** $3.629/m = $121/d

For hosts to list on their platform, Airbnb needs to beat this by a "sufficient" margin

Airbnb ADR = $226/d (+87% on LTR)

And achieve high occupancy. At an occupancy of 75%, the premium over LTR ~halves.

What is the year-round premium required?

⇒ determine through experimentation

But for sufficient guests to book, they need to stay below hotel ADRs by some margin. With hotel ADR ~$300/d, they stay some 25% below

ADR

US$600+

$300

$200

+87% to attract hosts

$226/d

-25% to attract guests

~$300/d

$100

$121/d

US$40

$0

Long-term rental "ADR"

"Optimal" ADR range for Airbnb

Hotel ADR

Hotel price distribution San Fran (Booking.com)
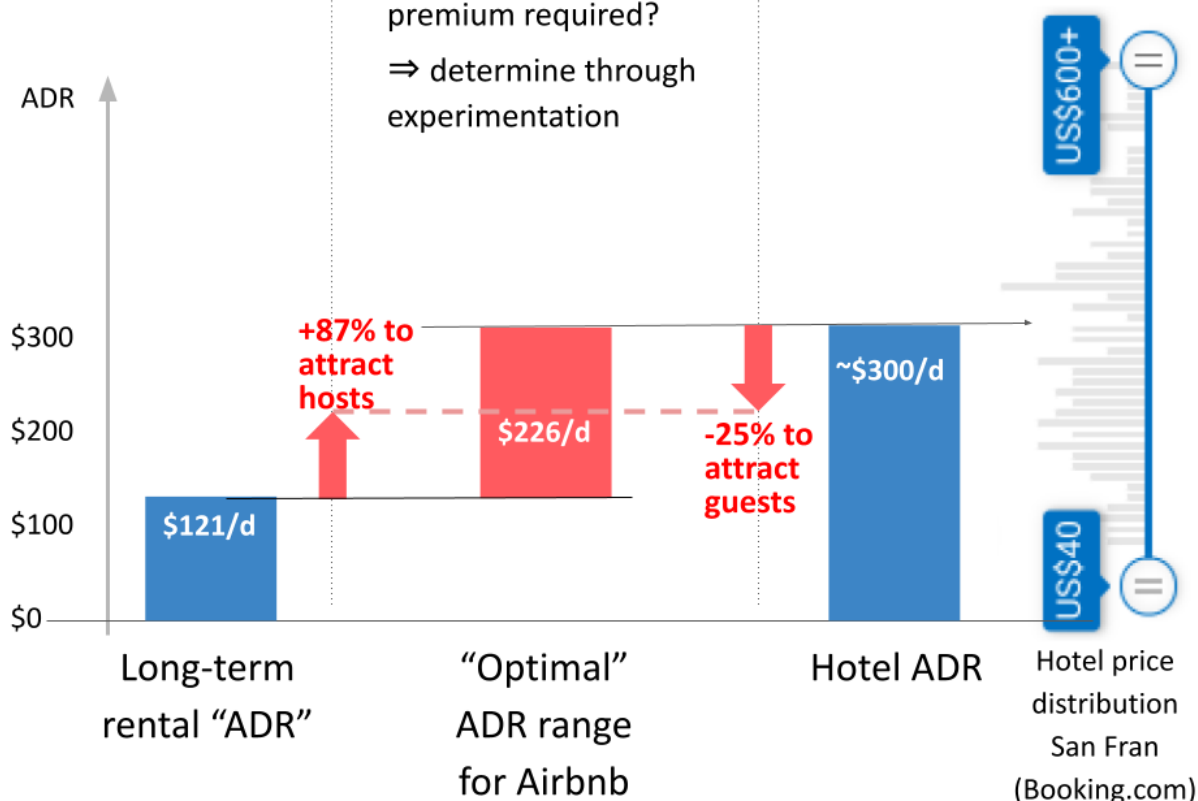
Note: illustrative example only. Reality is more complex but the key statements hold.

Airbnb pricing strategy (example rural/vacation destination)

There is no fundamental difference between urban and rural / vacation areas. But there are still some important differences that play a role:

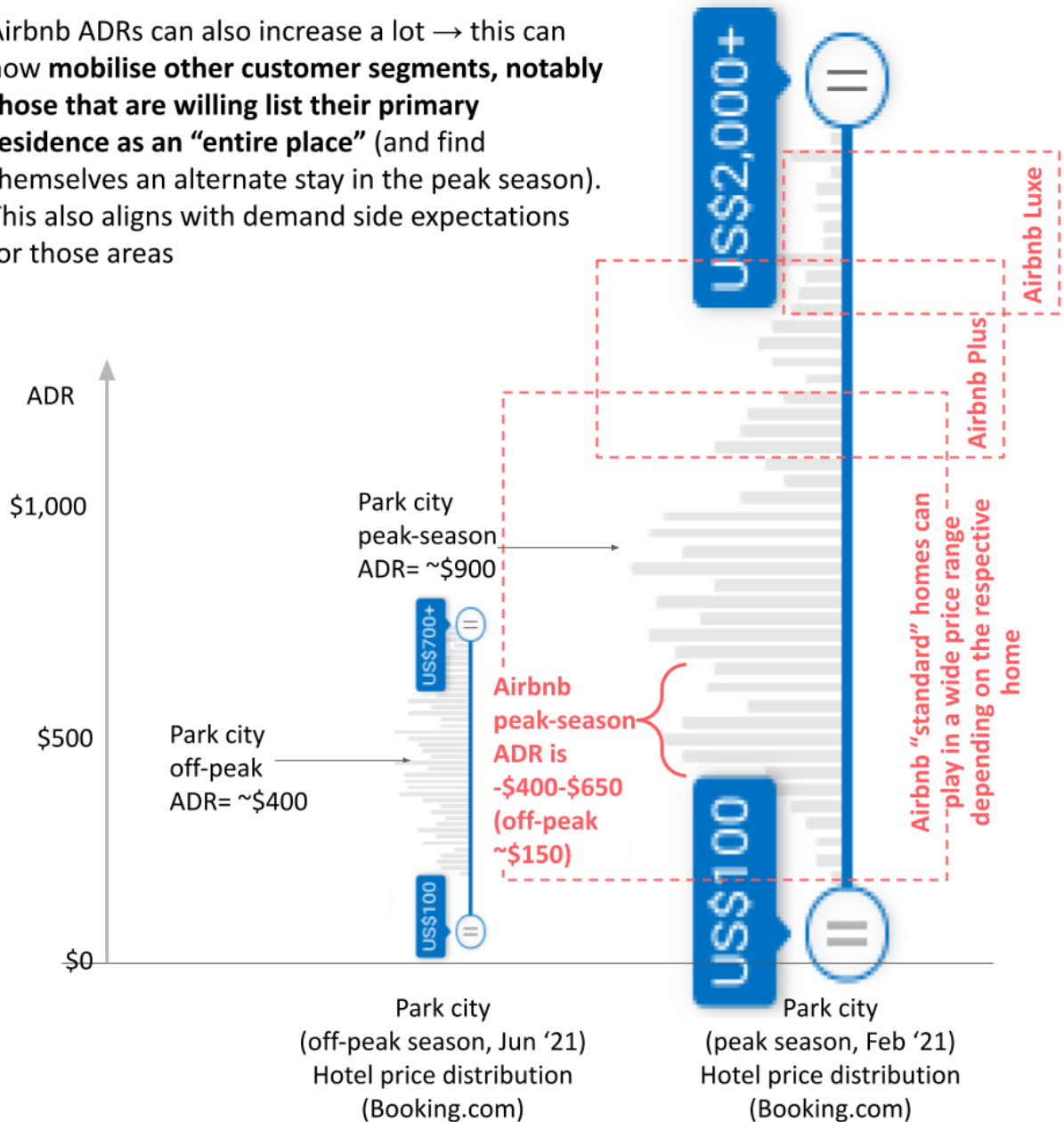Hotel economics in vacation areas are different → price range varies more between off-season and peak-season.

Airbnb ADRs can also increase a lot → this can now **mobilise other customer segments, notably those that are willing list their primary residence as an "entire place"** (and find themselves an alternate stay in the peak season). This also aligns with demand side expectations for those areas

ADR

US$2,000+

Airbnb Luxe

Airbnb Plus

$1,000

Park city peak-season ADR= ~$900

US$700+

Airbnb "standard" homes can play in a wide price range depending on the respective home

Airbnb peak-season ADR is -$400-$650 (off-peak ~$150)

$500

Park city off-peak ADR= ~$400

US$100

US$100

$0

Park city (off-peak season, Jun '21) Hotel price distribution (Booking.com)

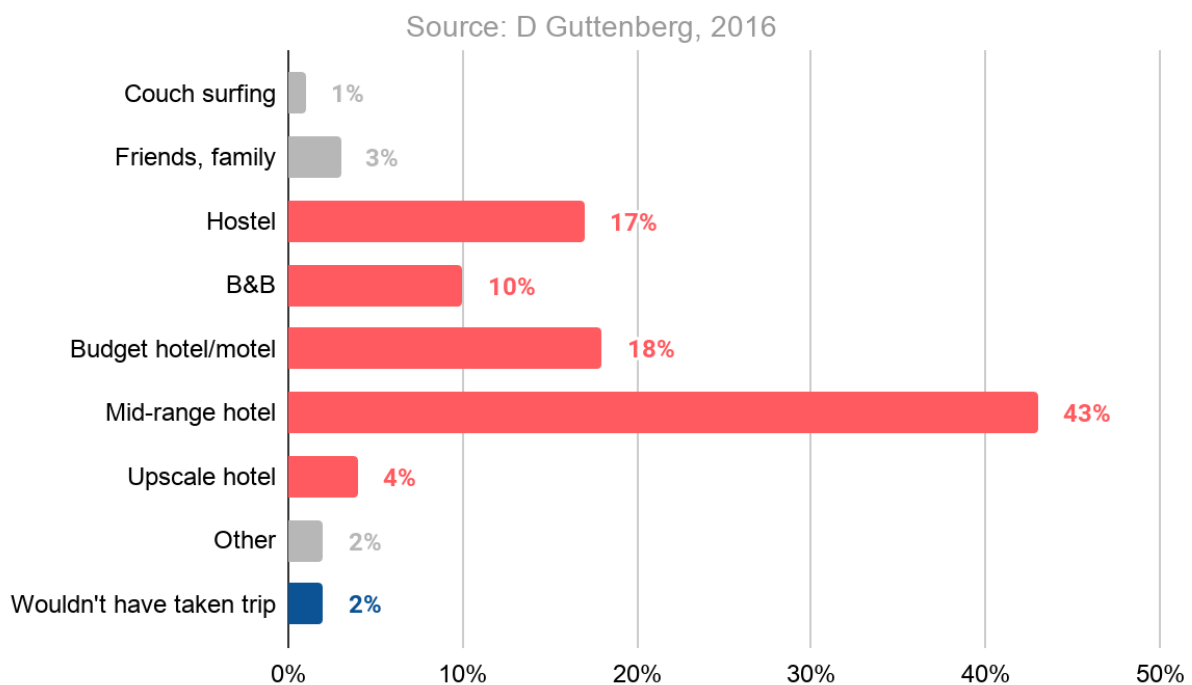Park city (peak season, Feb '21) Hotel price distribution (Booking.com)

Competitive landscape

Substitution or new demand?

In the earlier days of Airbnb (let's say until 2016), there was the talk of Airbnb creating additional demand rather than substituting hotel demand. This question is of course relevant to assess the competitors' responses.

Airbnb as substitute for other forms of accommodation

Source: D Guttenberg, 2016

Category	Percentage
Couch surfing	1%
Friends, family	3%
Hostel	17%
B&B	10%
Budget hotel/motel	18%
Mid-range hotel	43%
Upscale hotel	4%
Other	2%
Wouldn't have taken trip	2%

Note that this study is from 2016. Even then, 61% were using Airbnb as a substitute for hotels. 27% were using it as a substitute for traditional bed & breakfast and hostels, only 2% was stated to be additional demand. Airbnb's market share at the time would have been well below 1% but it indicates that we are talking about substitution.
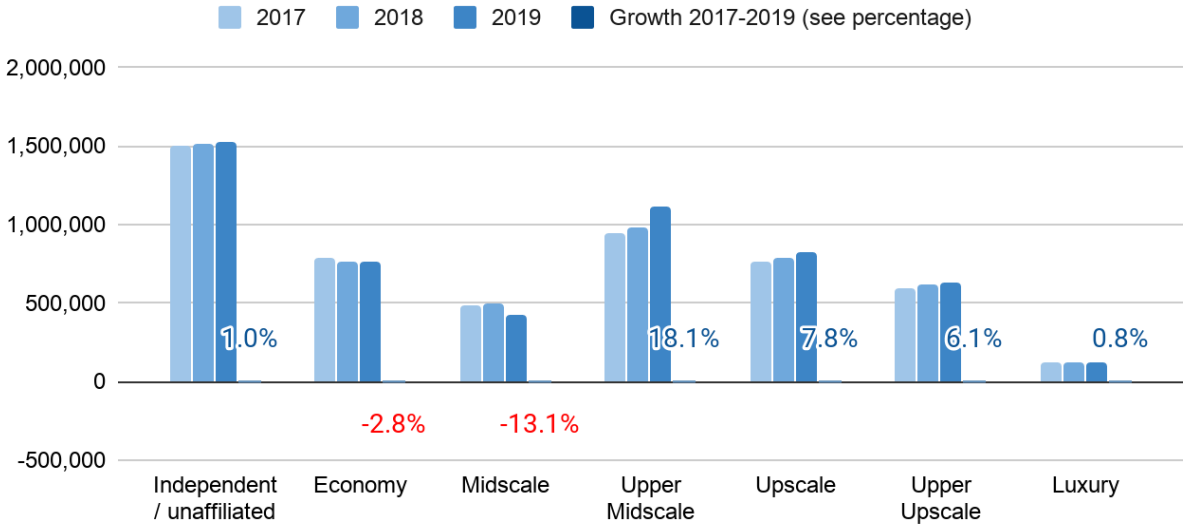
A Morgan Stanley study from around the same time came to similar conclusions.

believe the most valuable part are the last 5 years in this graph for the US. We will look at the ADR chart in a minute but RevPAR is more significant.

We know that the economy has done well in those years yet RevPAR growth has been very moderate. In 2019, a good economic year, led to a small decline in RevPAR. This can be indicative of an Airbnb-effect. But we need to be careful with such statements due to the complexity of the data. The next chart adds to it.

Number of hotel rooms by segment, US

Source: Statista

Legend: 2017, 2018, 2019, Growth 2017-2019 (see percentage)

Chart values (approximate):
- Independent / unaffiliated: ~1,500,000 — 1.0%
- Economy: ~750,000 — -2.8%
- Midscale: ~450,000 — -13.1%
- Upper Midscale: ~950,000–1,100,000 — 18.1%
- Upscale: ~750,000–800,000 — 7.8%
- Upper Upscale: ~600,000 — 6.1%
- Luxury: ~100,000 — 0.8%

We see a considerable contraction of hotel rooms in the economy and midscale tiers (the percentage figures show the growth rates for each tier). As per the earlier remarks, these are the tiers that Airbnb users have substituted with Airbnb bookings (initially).

These rooms have not disappeared (there is an overall growth of 3.5% over the three years). As you can see from the growth of the various upper scale tiers, these rooms have been repurposed (they will have undergone a refresh / renovations, etc). But essentially, hotels have gone from lower to upper tiers.
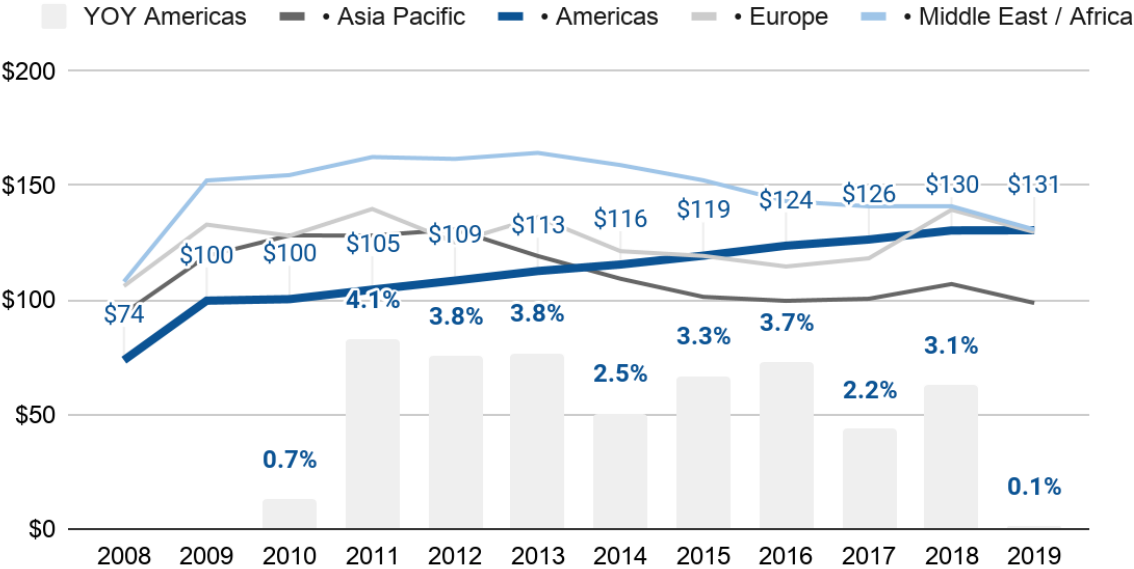
We all are familiar with the work of the unforgettable Clayton Christensen who discovered the concept of disruptive innovation. The observations fit the story of disruption. Incumbents don't fight. They climb up the performance ladder. The

story then ends with the disruptor climbing up the ladder one step at a time until nothing is left for the incumbent (all the while the financial press is cheering that the incumbent is making higher margins). The process typically unfolds over a long period of time (for capex-intensive industries over decades). But Airbnb is not capex intensive, has sufficient funding and is not just going one step at a time. They are attacking all tiers of the performance spectrum at the same time (remember Plus and Luxe).

Global hotel ADR by region
Source: Statista

Legend: YOY Americas · Asia Pacific · Americas · Europe · Middle East / Africa

Data labels (Americas line): $74, $100, $100, $105, $109, $113, $116, $119, $124, $126, $130, $131

YOY Americas bars: 0.7%, 4.1%, 3.8%, 3.8%, 2.5%, 3.3%, 3.7%, 2.2%, 3.1%, 0.1%

Years: 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Fitting to the description of disruption is that ADRs are generally increasing (remember the incumbent achieves higher margins because they climb up the performance ladder). Given a considerable amount of inventory has moved up the premium ladder you would expect nothing less than this. (Whether it is sufficient to cover the capex involved, remains a different question.) The 2019 fall off the cliff is remarkable given it coincided with a good economic environment (at least from a jobs perspective - here a scholarly article that shows the hotel industry demand elasticity in correlation with income as one of the key drivers).
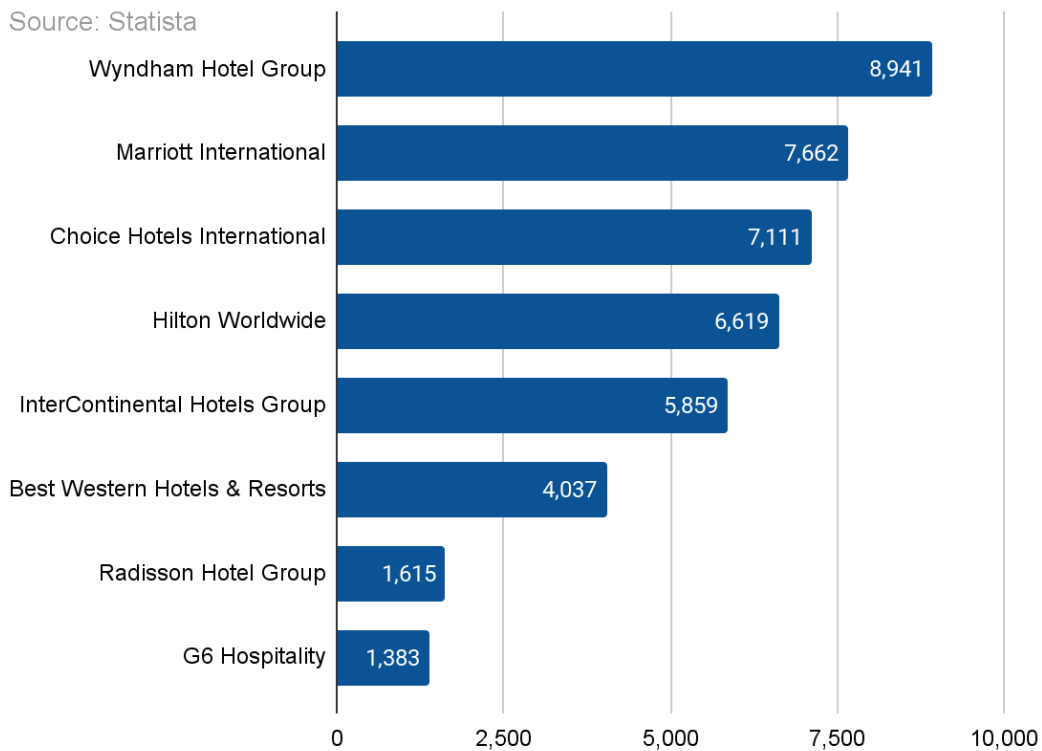
Increasing ADRs on the hotel side give Airbnb several options:

1. Pocket the additional margin.

2. Pass onto hosts and get more hosts on the platform with better properties.

3. Pass onto guests and get more guests on the platform.

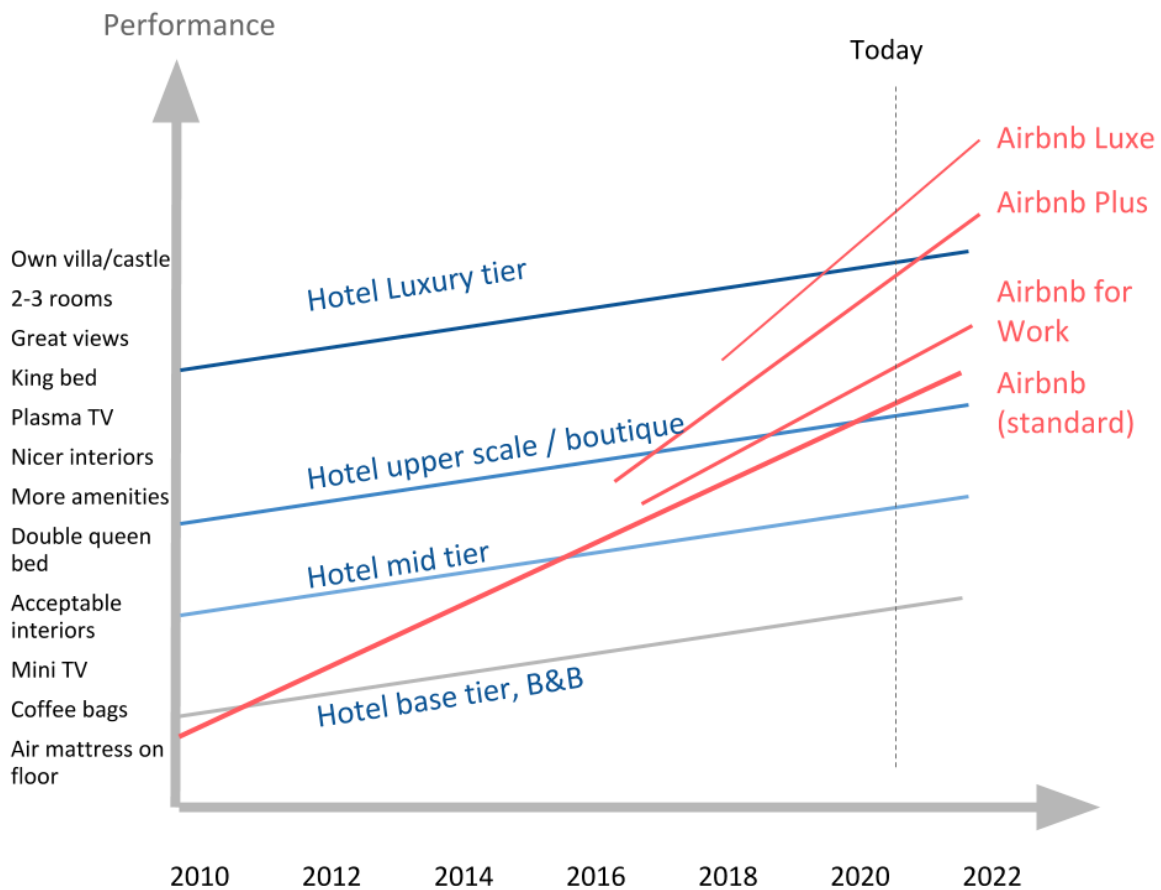4. Or experiment until they find the best mix of the three options above.

Lastly, here are the leading hotel companies by number of properties.

Leading hotel companies worldwide by number of properties, June 2020

Source: Statista

Company	Number of properties
Wyndham Hotel Group	8,941
Marriott International	7,662
Choice Hotels International	7,111
Hilton Worldwide	6,619
InterContinental Hotels Group	5,859
Best Western Hotels & Resorts	4,037
Radisson Hotel Group	1,615
G6 Hospitality	1,383

Are we witnessing a story of disruption?

Are we seeing disruption unfolding? Some signs speak for it (chart is illustrative only). Hotels will not entirely disappear but their growth trajectory may be considerably impacted.

*"He's not alone in his thinking. "Our guests don't want the Airbnb feel and scent," says Christopher Norton, EVP of global product and operations at the Four Seasons. Norton says that Airbnb doesn't really compete with the Four Seasons because its **amateur hosts can't match the level of hospitality his hotel's professional concierges offer**, and its customers expect a "level of service that is different, more sophisticated, detailed, and skillful." (Diana Oreck, VP of the Ritz-Carlton's leadership and hospitality training center, told me she's never even heard of Airbnb.)"* FastCo