

The Innovator's Solution to Airbnb

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Duke in Silicon Valley

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“Build something one hundred people will love, not something one million people will kind of like” – Brian Chesky, Airbnb CEO

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Founded in 2007, Airbnb is a peer to peer accommodations platform that lets consumers book listings that hosts put on the website, with options ranging from apartments and rooms to tree houses and castles. As one of the leading pioneers of the “sharing economy”, Airbnb has become a success story of Y-Combinator and a \$10 billion valued company in six years (Lunden). This paper will analyze Airbnb through the concepts established in Clayton Christensen’s book *The Innovator’s Solution*, looking specifically at Airbnb’s initial disruptive foothold within the accommodations industry, how it has developed and grown, as well as what the theory suggests about Airbnb’s future.

Company Background

The concept of Airbnb originated in 2007 when co-founders and roommates Brian Chesky and Joe Gebbia found themselves unemployed and desperate for money (Carney). The Industrial Designers Society of America conference was in town in San Francisco, and they decided to rent out airbeds in their apartment to some of the people visiting for the conference (Choe). This basic concept formed the foundation of their new business, a platform for hosts to provide housing for consumers in exchange for compensation. The two co-founders then approached Nathan Blecharczyk to become the third co-founder, and they launched the website Airbedandbreakfast.com (Rao).

The website was not successful from the outset; they had trouble finding both investors to fund their company and consumers that would like to use their product (Carney). As a result, they resorted to finding different ways to bootstrap their small company. Although most of the strategies did not work out, one of the more unorthodox methods ended up generating enough money to support the company at the start. The team created two cereal brands, “Obama O’s” and “Cap’n McCains”, feeding off the hype from the 2008 presidential race. The story with the cereal was what captured the attention of Paul Graham during the co-founders’ pitch. Graham not only became the company’s first investor but also gave Airbnb the chance to participate in the 2008 Y-Combinator winter session (Carney).

Although they were a part of a renowned incubator like Y-Combinator, they were still struggling. One of the suggestions they received from Graham was to live their product and take actions even if they may not scale. During their three months at Y-Combinator, the co-founders left to New York City to live in Airbnb listings and to take photos of listings, using a non-scalable solution to grow their product (First Round Review). This improved their revenue, and served as a turning point for the company. Eventually, on March 2009, the company was renamed Airbnb (Rao). By their Y-Combinator Demo Day on April 2009, Airbnb were finally profitable, and their seed round of \$600,000 was led by Sequoia Capital (Chesky, Quora).

By November 2010, Airbnb had listings in more than 8,000 cities, and received more than 700,000 bookings, in addition to launching their first mobile app (Shontell 2010). Airbnb received a Series A funding of \$7.2 million at the time, from Sequoia Capital and Greylock Partners. A year later, at their Series B funding, Airbnb received

\$112 million in funding from Andreessen Horowitz, DST Global and General Catalyst Partners (Austin). After their series C funding in April 2014, Airbnb is valued at \$10 billion dollars (Lunden). As of now, Airbnb has had more than 17 million total guests, at over 340 cities in 190 countries (Airbnb, About Us).

The fundamentals of what made Airbnb

Airbnb through the lens of Disruptive Innovation

Airbnb's success as an accommodation platform is due to disruptive innovation both for the consumers seeking accommodations and the hosts providing accommodations. The sharing economy business model is commonly used in many technology companies, and an example of a facilitated network business model that can disrupt more traditional value added process businesses, such as hotels. However, Airbnb was the first to do so with the accommodations space, providing a disruptive business model relative to the industry. Airbnb became a hub where consumers could find a satisfactory but cheaper accommodation compared to hotels, serving as primarily a low-end disruption of the accommodation industry. Hotel rooms in great locations, like downtown San Francisco or New York City, among other places, can often be very expensive. In addition, hotels often have features that are included with the price of the hotel that aren't necessarily needed: Swimming pools, recreation centers, concierge, bellhops ... etc. Many of the people that travel only need basic accommodations, which is a place to sleep and go to the bathroom. As a result, Airbnb renting out cheap accommodations is a classic example of providing a product with less but good enough performance, for a lower price, and this provides the low-end side of Airbnb's disruption, as seen in exhibit 1. Since the price of Airbnb places can be so much cheaper than the

alternative, consumers are willing to pay a small fee (between six and twelve percent) to Airbnb in order for a wide selection of cheap, well-located accommodations (Airbnb, What are guest service fees?).

As Airbnb up-marketed and grew its selection of options, it's shown that there is also value in having short term accommodations that are not just single rooms like hotels but also a wide diversity of the type of accommodations offered. Consumers that are looking for places that can house multiple people together benefit from the apartments offered using Airbnb. Some consumers don't mind not having the privacy of their own room, and are willing to share a room or apartment with a stranger if it were a lower price. Consumers that want a private pool or hot tub may also benefit from Airbnb, as this is something that most hotels don't offer. Airbnb also offers niche accommodations such as tree houses and boathouses, providing unique experiences that are not typical of hotels. In some situations where consumers are no longer just looking for a room but for a different accommodation experience, such as a tree house, Airbnb is creating a new value network and competing against non-consumption. Airbnb succeeds in providing people short-term housing options in a wider variety of forms, through a convenient, centralized location. As a result, Airbnb can also be seen as a hybrid disruption, combining both consumers looking for cheaper accommodations and those looking for different types of accommodation than rooms typically offered in hotels.

In addition, Airbnb became a new market disruption for hosts looking to rent out their apartment or space. While individuals looking to rent out their accommodation had methods of doing it before, most of them were too inconvenient and required renting the space for a longer period of time. One possible way was to lease your real estate through

a rental broker, but this was normally catered to renting out for a longer period of time and didn't give hosts the flexibility of Airbnb. It also required communicating with brokers and the government, which could be a more bureaucratic and tedious process. Another way was to lease it through websites like Craigslist, but this was inefficient for the hosts, as consumers went on Craigslist to complete a multitude of different jobs, in addition to finding a place to stay. In addition, it didn't have the trust or safety that Airbnb brought through its verification process or security. Airbnb provided a platform for hosts to have flexibility in the time and duration of the rent, and to reach out to a wider market of customers to satisfy a more specific job. In addition, the process of signing up to become a host was much simpler and more convenient than the other options.

Airbnb's Job to be done

Airbnb's role towards providing accommodations is also a much more jobs focused solution versus the traditional hospitality business. While hotels typically offer more "features" in their "product" in the form of perks like concierges, recreational centers and restaurants, Airbnb satisfies the basic job to be done; providing an easy and trusted way for consumers to find a place to stay at a low price and convenient location. By providing more locations and at a lower price, Airbnb actually offers more flexibility and options in this basic job. Using an online account and platform, Airbnb is also able to make the booking and payment process easy for the consumer. While websites like booking.com, Expedia and Hostels.com, among others, also offer a platform for simple booking and at a fairly low price, they do not satisfy the plethora of jobs to be done the way Airbnb does. What accommodation platforms are trying to accomplish are actually a

series of slightly different jobs, catered towards a variety of different consumers. A businessperson traveling to meet a client is trying to ‘hire’ a place to stay that provides easy access to his client. Compared to a singular hotel chain, Airbnb more likely has more locations available, and so is more likely to be able to offer a location that is closer to the client. Perks such as a recreational center that many of the hotels offer may not be a necessary feature for this particular ‘job’. A family that is on vacation is trying to ‘hire’ an opportunity for the family to spend time together. An apartment or house gives them the opportunity to live together privately, compared to a hotel room where they could be placed in different rooms. A college student backpacking is trying to ‘hire’ a place to stay as close to the area that he/she is trying to explore. Airbnb accommodations are more likely to be in an area that gives the student a chance to experience culture firsthand or a chance to live with a host and likeminded travelers, whereas a hotel offers a more synthetic experience. A hotel room is no longer the only form of accommodation, and runs the risk of being a one size fits none solution; however, through the sharing economy, Airbnb is able to offer customized solutions to many of these jobs.

Priorities at Airbnb

The resources, processes and priorities of Airbnb also play a role towards Airbnb’s success. While multiple accommodation sharing platforms existed and had very similar basic resources as Airbnb, very few of them ended up having the large-scale growth of Airbnb. Part of the reason was self-fulfilling. Since Airbnb was one of the first successful, peer to peer accommodations platforms, it resulted in more people signing on once they found out about it, which resulted in more hosts signing on since there was a larger demand for the accommodations Airbnb had to offer, which resulted in even more

people signing on and using it. As a result, one of the more significant resources that Airbnb had to make it successful is its network of consumers and hosts.

Still, even though Airbnb started off with the same goal it had when it was founded of being an accommodations platform, it was not initially successful and had difficulty picking up a consumer base at first. Airbnb suffered through a failed launch, and their revenue was capped at only \$200 a week in 2009 (First Round Review). Their success after these initial circumstances were due to the priorities that CEO Brian Chesky adopted from investor Paul Graham. Brian Chesky says that “the best advice he has ever received” was from Graham, telling him to “build something one hundred people will love, not something one million people will kind of like” (Shontell 2013). As a guest on Pando Monthly, Chesky told the crowd that “if you want to build a great product, just focus on one person. Make that one person have the most amazing experience ever” (Shontell 2013). This represents part of the core values of Airbnb. As an online peer-to-peer platform, Airbnb has very little control over what happens at the actual accommodation itself. As a result, providing a great experience for their consumers means prioritizing a great user experience on their website or mobile app. As mentioned previously, Airbnb’s basic job to be done is making sure that users have an easy and trusted way for consumers to find a place to stay at a low price and convenient location. Providing a great user experiences is crucial for accomplishing all aspects of this basic job, by making booking an accommodation as simple and convenient as possible, and making sure the users have enough data to make the best choice possible. Founder Joe Gebbia claimed that one of the turning points of Airbnb was when they realized that one of the reasons the site was not being widely used was because the photos that were on the

accommodation listings were not high quality images, making it more difficult for consumers to see the quality of the accommodations and less likely for users to trust the listings (First Round Review). As a result, the original team flew to New York City and rented a camera, providing high definition photos for different apartment listings. This wasn't a data driven decision, but it eventually resulted in Airbnb doubling their revenue at the time to \$400 a week. Eventually, their photography experiment led to a full time photography program, where professional photographers are sent to take better quality photos of their space (Crook). This provided a fundamental shift in establishing user experience as a priority, and led to processes within the company that are focused on creating the best user experience. Airbnb places a premium on employees using Airbnb, and the company pays new employees to go on a trip through Airbnb and to document it. Chesky is also known to live from Airbnb to Airbnb, even when he is "home" in San Francisco (Duerson). This further emphasizes Airbnb's priority of a great user experience.

International Expansion and Acquisitions

One way Airbnb succeeded is rather than limiting itself to within the United States, Airbnb aimed to become an accommodations platform internationally. This was achieved in multiple ways. One of them was through organic, sustaining growth that naturally occurs after establishing Airbnb, due to the theories mentioned above. As an accommodations platform, there are fewer barriers between western regions that are culturally similar and the job to be done is similar. As a result, Airbnb was able to succeed somewhat naturally in both Europe and America.

Still, Airbnb also expanded through a series of Leverage my Business Model (LBM) acquisitions. Outside of the US market, Airbnb first targeted Europe for its international expansion. Their first acquisition was a German accommodation company named Accoleo in 2011 (Wauters). Airbnb predicted that their business model would be successful with the resources that Accoleo had, and acquired Accoleo for their consumer base and location. After acquiring Accoleo, Airbnb integrated the listings and consumers that Accoleo had. They did a similar acquisition with UK Company Crashpadder in 2012, another peer to peer accommodations platform, selectively acquiring it prior to the 2012 Olympics in London. Also a LBM acquisition, Airbnb successfully integrated Crashpadder's resources to the company. While Airbnb was already growing at the time, with 748% growth in the UK market, Crashpadder was a particularly active competitor in the region and acquiring them gave Airbnb a dominant market share in the United Kingdom (Heim). Acquiring these companies meant that Airbnb would establish offices in these areas that could run both Airbnb's old listings and new listings, meaning it would increase its market share in the region without increasing costs. Since consumers that are using accommodations platforms can easily use it as a singular source for all accommodations, it is more likely to retain its consumers even when they are traveling to different parts of the world. A consumer that uses Airbnb as an accommodation platform in the United States is likely to also look at using it when traveling to Europe as well, since once an account is made, the ease in which someone can book a location is fairly simple.

What does the future look like for Airbnb?

Rebranding

On July 15th, 2014, Airbnb revealed a rebranding of their product. Part of their rebranding was design changes, addressing the way it's mobile application and website look after Apple redesigned its iOS and OSX applications. However, their rebranding was also an attempt to establish both a purpose and an endorser brand for the future. It reiterated their emphasis on user experience, establishing their priorities as well as outlining their job to be done going forward. In explaining the story behind the new brand on their blog, CEO Brian Chesky writes:

“...But really, we're about home. You see, a house is just a space, but a home is where you belong. And what makes this global community so special is that for the very first time, you can belong anywhere. That is the idea at the core of our company: belonging.” (Chesky)

By emphasizing on “home”, this serves as a way for Airbnb to show its purpose and differentiate the job it does from hotels. While hotel rooms are typically designed to be unbiased to its consumers, Airbnb prides itself on providing a customizable and personalized experience, framed in the rebrand unveiling as “home”. This shows consumers that Airbnb is able to satisfy the consumer's particular job better than the one size fit none structure of hotel rooms.

The new brand also serves as a way for Airbnb to properly establish an endorser brand. Part of Airbnb's priorities is to provide an amazing user experience, where booking an accommodation is simple and convenient, and that the accommodation itself is safe. In order to get the message across, one way of doing so is through the brand. Although Airbnb had an older brand (both brands can be seen in exhibit 3), the old brand itself was more reflective of Airbnb's story and how it got founded rather than the

purpose or excellence of the company. Chief Marketing Officer Jonathan Mildenhall writes in a Marketing Magazine article that “Airbnb will soon be able to hold its own against some of the world’s most iconic and established superbrands”. Although the brand was not necessarily well liked by everyone (Dezeen Magazine), it serves as a way that Airbnb can leverage its standard and overall values across all its future products, particularly important considering the fact that it uses an integrated business model rather than a variety of small products with their own individual brand.

New Features

In addition to the rebranding, Airbnb introduced multiple new features over the past two years. The new product features that Airbnb have shown, in combination with the rebranding, demonstrates the direction that Airbnb sees itself going into in the years to come.

Some of the new features that Airbnb offered are part of differentiating between specific jobs to be done that consumers already hire Airbnb to do. *Neighborhoods* (seen in exhibit 4), a feature that was released in late 2012, was the result of acquiring Nabewise. Nabewise was a mobile application that provided ideal neighborhoods to users through data analytics, and it was eventually integrated within Airbnb. Rather than acquiring Nabewise for its processes or priorities, Airbnb acquired it for its products, an LBM acquisition, and eventually it formed the new *Neighborhoods* feature. This gave consumers a chance to search Airbnb listings for their specific jobs. For example, if a consumer is looking to hire his visit to Los Angeles as a way to party and meet new people, he could select the nightlife tab when searching for neighborhoods in Los Angeles, in order to provide better results. This allows consumers to satisfy their job to

be done more easily rather than over serving consumers with all of its listings. *Business travel on Airbnb*, a new section released on July 28th 2014, also offers similar benefits when hiring Airbnb. It targets the jobs that business travellers specifically want to ‘hire’, rather than providing all of the jobs that Airbnb has available, some of which may be more recreationally based. Utilizing other job specific features like *Business travel on Airbnb* could benefit Airbnb as the company gains more listings that satisfy different jobs, in order for consumers to more easily find an accommodation to satisfy their specific job.

Certain new features also allow Airbnb to expand their jobs to be done. The discovery feature was released with the rebranding on July 15th, 2014. It shows places and listings that are personalized to an individual, according to the user’s current location. This is Airbnb’s attempt to become a more personalized platform that can not only offer a simple way to book an already planned location but to also offer solutions to find locations. While past experiences with Airbnb were typically built around a destination already in mind, Airbnb wants to offer an alternative, providing a personalized recommendation system similar to that of media platforms like Netflix or iTunes. This is their way of providing more reasons for consumers to ‘hire’ Airbnb, and can be seen as a sustaining innovation in its current accommodations space, providing a better product that has more features. However, it could also still be seen as a disruptive innovation relative to other parts of the travel industry, and eventually upmarket those parts of the industry. For example, informational sites like TripAdvisor or Yelp should be wary of what Discovery, and other similar features could potentially become. As it receives more data from users, Airbnb could eventually provide a more personalized and

better solution to where travellers should go and what they can do at different places. On the other hand, due to their modularity, informational sites like Trip Advisor and Yelp are unable to leverage their data to other aspects of the travel industry.

Airbnb wants to integrate more aspects of the travel experience to its platform, rather than just accommodation, and is attempting to provide a more integrated solution to travel versus the more modular architecture the travel industry currently has, where individuals use different mediums to book accommodations, find entertainment, discover restaurants to eat and ways to meet people. While third party informational travel sites such as TripAdvisor typically do a better job of offering this information, Airbnb has the user data that it could leverage in order to better serve its consumers in the long run.

Airbnb's acquisition of Localmind is another example that shows that it is investing in this full, integrated approach to travel. Localmind is a crowdsourcing application that allowed users to know from other people in the area what is happening at different locations in real time. As aspects of Localmind are being integrated within Airbnb, Airbnb is able to provide more data to its users about what things there are to do in the area of the accommodation, where people are and what there is to eat, providing a more integrated experience. While not exactly the same, the travel industry can be analogous to the music industry before the iPod, where the entire experience of obtaining music and putting it on a portable device was modular and not good enough. As a result, Apple's integrated approach with iTunes and the iPod worked. The travel industry is in a similar place, where people generally still have difficulty finding places to go, food to eat, places to stay, in one convenient location, resulting in a modular industry where the products are not yet good enough. Airbnb's integrated, interdependent approach would therefore make

sense in a situation where the experience is not good enough, and other parts of the industry need to be wary about eventually being up-marketed by Airbnb.

Airbnb and its Asian Expansion

Going forward, one way for Airbnb to grow is to expand their market internationally. As seen in exhibit 2, while Europe and South America have numerous, active Airbnb listings, Asia, particularly China, has fairly limited listings, relative to both the amount of people that live there and the space it covers. As a result, Asia is a logical target region to focus on next and the company has made it known that it is their next step. Product Manager of Growth, Gustaf Alstromer says in an interview with VentureBeat that “there’s an excitement and need for the service [in China]”, and that “It would be a big mistake to ignore China” (Kokalitcheva). With that said, even though the company is experienced in international expansion, expansion in Asia and China remains a very different challenge than their expansion in Europe and South America.

Many of the consumers utilizing Airbnb in South America are from the United States, so they are likely to use Airbnb to accomplish the same job whether they are in the United States or in another country (Pasick). In Europe, where there is a lot less space and property is expensive, the alternatives to Airbnb are usually budget hostels or boutique hotels. Airbnb offers a cheaper solution to high priced hotels and a better experience to some hostels. Because western culture remains similar across continents, individuals in America or in Europe are more likely to have similar attitudes towards trusting strangers on an open, sharing platform. The distance between the continents is also an issue. Since Europe is closer to the United States, cross-pollination occurs more often between those two continents versus Asia, as mentioned by CTO Nathan

Blecharzyk (Pasick). More frequent travel for Americans to Europe and for Europeans to America means that they would be more willing to use the same platform to accomplish the same job when traveling, and this would result in organic growth in both continents.

In Asia, on the other hand, there are cultural obstacles that can influence Airbnb's success in the future. While Asians travel to other countries often, they do not usually travel outside of Asia to the United States or Europe. Four out of five trips from Asia are to other places in Asia (Pasick). As a result, Asians do not have as much of an exposure to the organic growth of Airbnb taking place in other parts of the world. In addition, many of the countries in Asia are still considered to have developing economies, making individuals less likely to afford travel, even if it is at Airbnb's cheaper price. Blecharczyk mentions in an interview that the top destinations for Airbnb in Asia are Seoul, Tokyo, Bali, Singapore, Hong Kong and Taipei, with Shanghai and Beijing are showing signs of future potential. While Airbnb may continue its sustaining growth in some of these cities, there are certain circumstances that may work against some of them. China, Hong Kong and Singapore have high-income disparity and high Gini coefficients relative to the United States and many European Countries (CIA). This suggests that even though these cities have high population density and a developed economy, which may imply growth for Airbnb, many of the population will not be able to afford traveling even if it is at a cheaper price. As a result, Airbnb would mainly cater to the higher income population, serving as less of a low-end disruption in the Asian market and more as a competitor with high-end hotels. Since Airbnb typically lacks the perks, premiums or brand that high-end hotels usually offer in Asia, they would not necessarily be able to compete as effectively.

Differing cultures in Asia versus Western Countries also makes it difficult for Airbnb to grow rapidly in Asia with the same processes and priorities. One such example are popular tourism destinations like Thailand and Bali, where accommodations are primarily in the form of resorts and villas that can also be affordable due to real estate being cheap (although resorts also exist in the United States and in Europe, they are a lot less commonplace). Since these resorts can be similar in price and also located conveniently, they are able to do the basic job as well as Airbnb. These resorts and villas are also very similar forms of accommodations as the ones that Airbnb typically offer, completing similar jobs. For example, individuals that are seeking privacy and space in their own apartment can do so through the comfort of a villa. As a result, resorts and villas do not fall into the same trap of a one size fits none solution as hotels, making Airbnb less appealing. In China, multiple peer-to-peer accommodation sites such as Mayi (Chinese for Ant) or Xiaozhu (Chinese for Little Pig), will also prove difficult for Airbnb to overcome (Millward). Although these sites appear to be Airbnb clones, they do have features and offerings that differ it from Airbnb, suggesting why these startups are successful, while Airbnb is suffering through growing pains (Kokalitcheva). Rather than focus on apartments and homes, like Airbnb has become, Xiaozhu focuses on providing cheap, dorm style rooms (Milward). In this case, Airbnb may not be enough of a low-end disruption due to its (relatively) high service fee (Xiaozhu does not have a service fee) and higher end accommodations. In addition, Xiaozhu has several features that address the differences in culture, such as physical payment methods rather than online payments.

In order to address these issues and succeed in Asia, Airbnb could acquire different companies, as they have done previously. Based on their history, a typical

solution they have used is an LBM acquisition and integrating the new company into Airbnb. However, this may have poor results; even though Airbnb would be increasing its consumer base, it would disregard the processes and priorities that the Asian company implemented in order for it to be successful in ways Airbnb couldn't. The contrasting cultures make it a different situation than the European acquisitions. Another option is to acquire and keep the Asian company independently; however that contrasts Airbnb's overarching umbrella brand and its integrated approach. As Airbnb looks at itself as an integrated solution to travel, using a different brand would go against the new features they are trying to implement, along with its new rebranding. Airbnb could also establish divisions that target the more specific jobs in Asia. While Airbnb's currently implements features may help it better target its existing consumers by presenting the accommodations in a more jobs-oriented format, such jobs may be less common in Asia, and the jobs that are required by Asian consumers may be different. By providing, for example, an *Airbnb affordable* feature that offers cheap dorm rooms, similar to their *Business Travel on Airbnb* section, Airbnb would be able to provide a product for the different jobs in Asia. By keeping the team working on the feature as an autonomous product team, Airbnb would be able to succeed in satisfying different jobs, establishing a subtly different purpose brand while keeping the endorser brand and product within the Airbnb family.

Conclusion

While Airbnb had some initial difficulty and early struggles, it eventually became one of the more valuable technology companies and revolutionized the accommodation industry. By looking at Airbnb through disruptive innovation, jobs to be done, resources,

processes and priorities and mergers and acquisitions, it can be seen how the company reached the position they're in today. The theories also serve as a method of predicting the future of the company, as it rebrands, develops new features and attempts to break into the Asian market. Their success with new features and breaking into new markets will depend on whether they act accordingly to the theory of disruptive innovation. Despite its high growth in the past few years, Airbnb's future is not completely certain.

Exhibit 1: Basic Performance vs. Time Graph for the Accommodations Industry

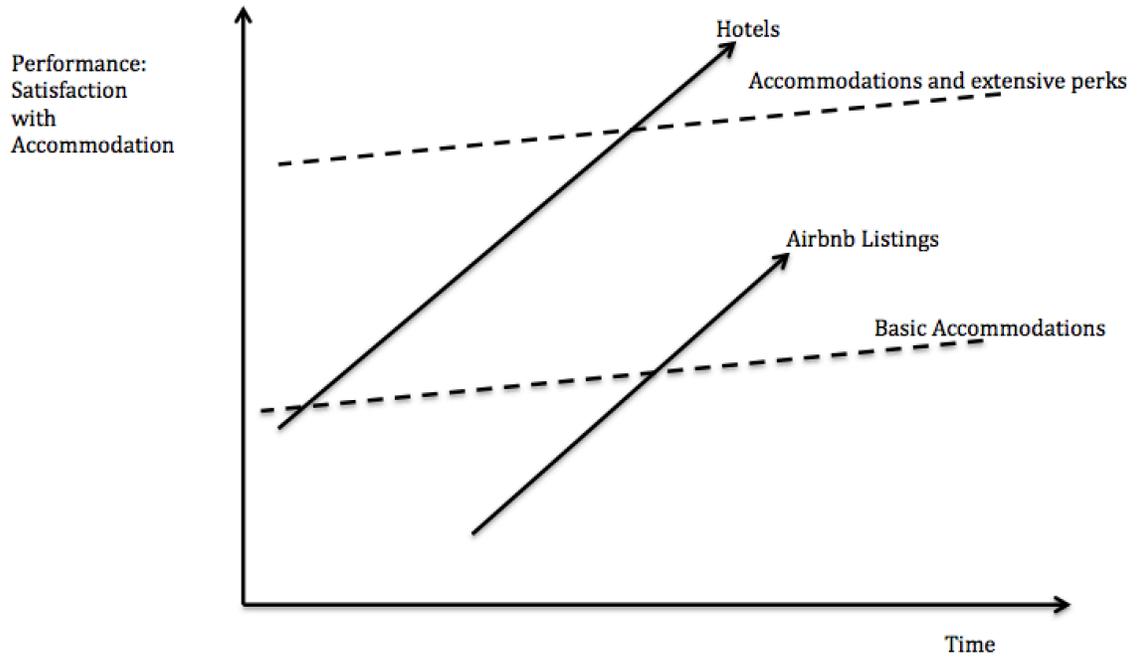


Exhibit 2: Airbnb listings worldwide (Red representing more listings, Green representing less)

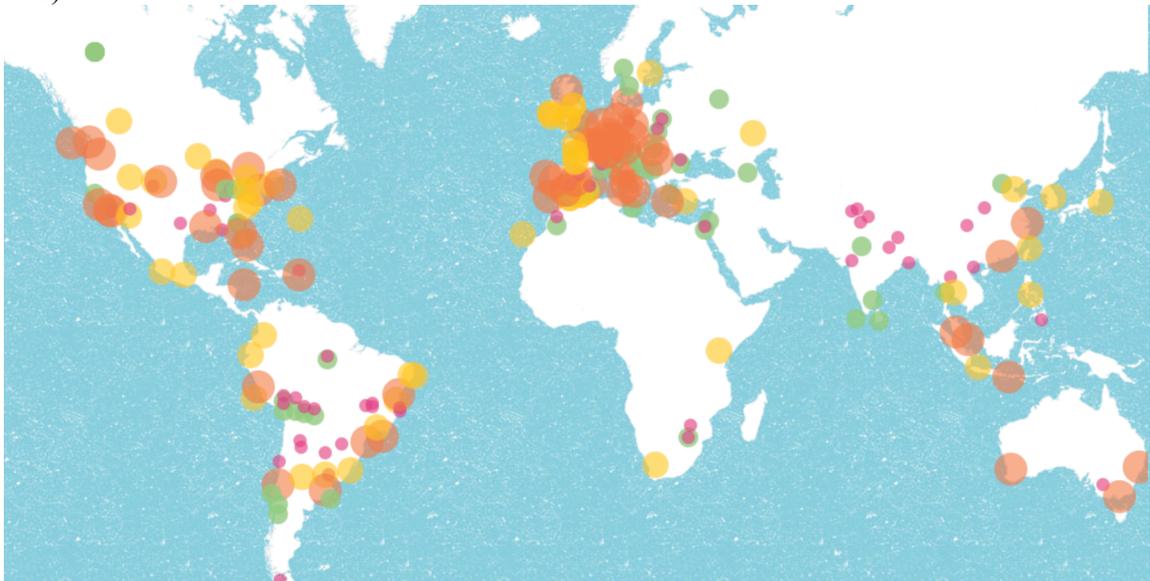


Exhibit 3: Airbnb Old Logo (Top) and New Logo (Bottom) (You the Designer) (Chesky)



Exhibit 4- Airbnb Neighborhoods Feature

Find a Neighborhood in Los Angeles

What kind of neighborhood are you looking for?

Beachy ×	Loved by Angelenos 3	Peace & Quiet 2	Celebrity Status ×	Touristy 3	Dining 4
Stunning Views 1	Cultural Enclaves 0	Close to Downtown 0	Shopping ×	Artsy 2	
Nightlife 1	Trendy 2				

4 neighborhoods match Beachy, Celebrity Status, Shopping. [See all listings](#)

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