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**CREATING VALUE WITH DIGITAL PLATFORMS – THE CASES OF  
UBER AND AIRBNB**

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DE MESTRE

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AIRBNB

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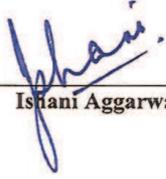
**CREATING VALUE WITH DIGITAL PLATFORMS – THE CASES OF UBER AND AIRBNB.**

Dissertação apresentada ao Curso de Mestrado Profissional Executivo em Gestão Empresarial da Escola Brasileira de Administração Pública e de Empresas para obtenção do grau de Mestra em Administração.

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“Some people see the glass half full. Others see it half empty.

I see a glass that's twice as big as it needs to be.”

*George Carlin*

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## Abstract

This thesis is intended to analyze a new business model, which bases the main activities of a company in a digital platform. To do so, two companies – Uber and Airbnb - were studied in depth. An overview of each company, an analysis of how is their pricing model and some financial data is shown. In order to provide conclusions concerning the main question of this study, how is value created through digital platforms, it is important to deliver some information regarding the major theoretical concepts, such as sharing economy, trust or network effects. The most fundamental for this work was, certainly, the sharing economy one: the fact that this type of economy is emerging and allowing people to connect with each other and generate activity is very important. Later in the thesis, a model is used to give a more clear perspective of which elements generate value, when a platform is in use. The platform allows transactions, which therefore enable the participating organizations to create value.

A presente tese destina-se a analisar um novo modelo de negócio, que baseia as principais actividades de uma empresa numa plataforma digital. Nesse sentido, duas empresas – Uber e Airbnb – foram analisadas em detalhe. Uma visão geral de cada empresa, uma análise de que tipo de modelo de preços e alguns dados financeiros são apresentados. De forma a conseguir proporcionar conclusões acerca da questão fulcral deste trabalho, de como é que, através de plataformas digitais, se consegue criar valor, é necessário examinar alguns conceitos teóricos, tais como a “network effects”, confiança ou “economia partilhada”. O conceito com mais peso para o desenvolvimento deste trabalho foi, certamente, o da “economia partilhada”, visto que este tipo de economia está em crescimento e permite às pessoas conectarem-se umas com as outras e, dessa forma, gerarem actividade, o que é muito importante. Existe um modelo que é utilizado nesta tese, de forma a oferecer uma perspectiva mais clara de que elementos geram valor, no caso da utilização de uma plataforma. A plataforma permite que haja transações, o que leva à criação de valor.

## 1. Introduction

In a world where connections are becoming more digital and where companies are starting to become leaner, by focusing on delivering the highest value to customers, while having zero waste, the question of how they do it arises. Companies like Uber or Airbnb, are successful cases of this “*new*” *business model*, which is becoming more common and seen as one to follow.

Creating a company is not by itself a hard thing, however having a successful business is something every entrepreneur tries to have, and therefore analyzing what are the strategies used in this kind of companies may help others to achieve that objective. Furthermore, observing the common strategies adopted by these different firms and comparing them to the traditional ones used in “*old*” business models will allow to comprehend the main weaknesses and opportunities (or pains and gains) that stand in this model.

Although these companies rely on digital tools, the fact that neither one of them owns the “core” business assets (Uber does not own cars; Airbnb does not own real estate) is very interesting to examine.

Digital platforms are increasingly beating products, as they offer customers lower transaction costs while using them and the value of those is brought by external entities, outside of the community, such as people who are both customers and suppliers. Taking the definition of “network effect”, this can explain how value for each user increases over time: the more Uber or Airbnb is used either by consumers or by drivers/renters, the more value it has for each one of them. An example always used to explain this concept is the “telephone”, because the more people who use it, the more value it has. The very first telephone had no use; neither the first email account.

Moreover, both companies mentioned before are good examples of the recent expression “sharing economy”. It is the *peer-to-peer-based activity of obtaining, giving, or sharing the access to goods and services, coordinated through community-based online services*. This is also an interesting aspect of these companies and something, which startups are looking at and willing to use. Both the information and interaction are the source of value creation in this *Collaborative Consumption* model.

## 2. Literature Review

*It is impressive that since 10 years ago, when Andreessen, cofounder of Netscape, stated that many industries would be disrupted by software, we have seen a lot of startups building their business models on digital platforms in industries that were thought before as “immune to digitalization”.* (Tauscher, 2016) In this paper it is assumed that both companies may be seen as “disruptive innovations”; however there are several perspectives on this subject, and accordingly to Christensen Uber does not qualify as a “genuinely disruptive”. (Christensen et al., 2015)

It is then important to understand what are in fact digital platforms and also what is meant by “platform approach” as these enable companies to build businesses that use customers as both “users” and “providers” of a service. These last are the fundamental part of sharing or collaborative economy, which is empowered and supported by network effects – which are positive externalities. It is essential to mention that trust is one of the most important aspects of this type of business model, as without it, the whole process does not work. (Mason, 2015)

When one regards to the sharing or collaborative economy, it is assumed that companies are permitting and encouraging the maximization of both customers’ capacity and resources. This maximization is very important, since it creates value for the society.

Before briefly analyzing both companies, Uber and Airbnb, it is important to understand the meaning of each mentioned concept in order to then question what happens since digital platforms until value creation, looking closely to the cases of the two companies.

### 2.1. Digital Platforms

Digital platforms are “online structures that enable a wide range of human activities”, and that at the same time “create value in the economy”. (Martin Kenney, 2016) If they “capture, transmit and monetize data, over the Internet”, then those are considered digital ones. (Gawer & Evans, 2016) As Cusumano, Gawer and Evans have studied, for companies like Uber or Airbnb, “digital platforms are multisided digital frameworks that shape the terms on which participants interact with one another”, meaning that, for instance, Uber only allows that people ask for a ride, rather than choosing the driver they “want” – the system itself may not

be changed by any party (riders or drivers) (Martin Kenney, 2016). Platform businesses add value by being the “middle-man” in interactions and transactions, between different types of individuals and organizations “that would otherwise have difficulty finding each other.” (Gawer & Evans, 2016) (Nguyen, 2014) Moreover, these digital platforms enable companies like Uber or Airbnb to “transform industries”, such as the transportation and real estate, respectively, “by connecting “producers” with customers in new ways.” (Martin Kenney, 2016)

## 2.2. Sharing Economy

Sharing or collaborative economy is also referred as “peer-to-peer platforms”, which allows people to “collaboratively make use of under-utilized inventory via fee-based sharing”, which “builds a social movement centered on genuine practices of sharing and cooperation in the production and consumption of goods and services”. (Zervas et al., 2016; Schor, 2014)

Sharing economy through digital means reduces transaction costs, which is good to both companies and customers, “making sharing assets cheaper and easier” and “therefore possible on a much larger scale”. (The Economist, 2013)

This concept gives people the freedom to be either users or providers. When someone has a car in the garage, for instance, and is not using it, Uber, for instance, permits that the owner uses it to generate cash – this is also related to the maximization of resources. The same might be applied to Airbnb: if one has an apartment, which is not in use, then Airbnb facilitates the owner to put it available and thus possibly make money out of it. It allows “owners to make money from underused assets.” (The Economist, 2013)

Environmentalists are mostly worried about the constraints put in the globe by economic activity, and another interesting aspect of this trend comes from having a better utilization of excess capacity already available (Surveys in the EU show CO<sub>2</sub> emissions being cut by up to 50%; (Cannon & Summers, 2014)). In every major city of the planet, there are parking garages, with different sets of cars, with different sets of configurations (4x4s, coupés, sedans, hatchbacks, etc.) There are also a number of rooms available; and unemployed (or sub-employed) people. It is not impossible to consider that, should this sharing economy trend

accelerate, we could have some deflationary pressures simultaneous with higher employment - something rare in economics.

### 2.3. Network Effect

“A fundamental feature of platforms is the presence of network effects: platforms become more valuable as more users use them.” (Gawer & Evans, 2016) The Metcalfe’s law is indeed the base of this concept.

Considered by some as “an unofficial economic force” or by others as “the business model”, the network effects are what in reality might explain the viral growth of some companies. As the number of people using the platform grows, for example, increases, the more valuable it becomes, since it is not useful if there is only one person using it. (Gawer & Evans, 2016) In the case of digital services, as Airbnb and Uber provide, “network effects become the key differentiator and driver of value creation.” (Bharadwaj et al., 2013)

According with Hagiu and Alvarez (2014), “network effects drive powerful, durable, and high-margin growth”. (Tauscher, 2016)

### 2.4. Trust

Trust is indeed necessary for the digital platform’s business to succeed, as people usually did not have any prior contact – or had very little - with each other. In the case of Uber, for instance, riders *trust the company* (as they are using its app to get the service), as they enter in a car, which is driven by a stranger. Nevertheless, it is true that the rating system gives the users a better perception about the driver, for instance. The same happens with Airbnb, since a guest chooses to go to someone else’s property, rather than going to a hotel, for instance. (Schor, 2014) This trust is surely relative because people do not need to establish a close relationship in order to trust in each other. The perceived risk is what lowers when people have institution-based trust. Therefore, it “facilitates online transactions by reducing perceived risk.” (Pavlou & Gefen, 2004)

There are certain factors that reduce the lack of trust, such as providing insurance in a transaction, vet and certify participants and offering dispute resolution and payment security services. (Hagi & Rothman, 2016) It is through these factors, for example, that a business might grow in terms of people trusting in it.

## 2.5. Value Creation

There are several perspectives on the value creation definition. While some authors may look at it with a more financial and numerical view, others defend that nowadays it is becoming more than “just that”; additionally, the sources of value creation may vary.

Accordingly to the Resource-Based Theory (RBT), a brand itself does not create value; rather it has to be connected to its products or services. (Bowman & Ambrosini, 2000) Another standpoint is that in order to build a “Value Creation Strategy”, the company needs to address three other strategies: business strategy, developing forecasts; financial strategy, where the firm decides what to do with the excess cash; and the investor strategy, concerning the investors interests. (The Boston Consulting Group, n.d.)

The shared value concept involves not only the *basic* definition of value – being “benefits relative to costs” – but also the social issues: as Porter and Kramer (2011) mention, “it involves new and heightened forms of collaboration. (Porter & Kramer, 2011) This collaboration takes the analysis to the platforms, which are used by Uber and Airbnb, for instance: in this case, value is created through transactions between individuals and organizations. (Gawer & Evans, 2016) The idea of creating value “through interactions” is moreover defended by Vargo and Lusch (2004), more specifically that it is “through coproduction with suppliers, business partners, allies, and customers.” (Vargo & Lusch, 2004)

### **3. Methodology**

By combining research with analysis of companies, the objective of this thesis is to study the cases of two known companies – Uber and Airbnb - which will help students to better understand the main differences between business models, while times are changing and companies' need to adapt is turning to be crucial. Collecting information both from companies and several references (articles, case studies, books, among others) will help to build a better, more structured and coherent work. Furthermore, as it is thought it will not be necessary to run surveys and/or interviews.

Integrating the presented structure with case studies from universities, such as HBS, this thesis is supposed to be a case study. It will present data about the companies, theoretical concepts applied to the companies' situation and other information, which might be important to mention.

Another important point to mention is the fact that this case study is not too dissimilar to a meta-analysis, in the sense that I will gather information from several different sources and then put together and make assumptions and take conclusions from those "results".

Following this method could bring some complications, as I will be collecting different kinds of information; also the results are not as discrete and objective as a thesis with surveys and data collection and treatment might produce.

## 4. Analysis

### Uber

#### *Company Overview*

Seven years ago (2009) UberCab was founded by Travis Kalanick and Garrett Camp, two friends who have had trouble in finding a taxi in a snowy night in Paris one year before. Two years later, in 2011, the name was changed to what it is known now: Uber - a reference to the German word *über*, which means “super”. Uber is an American online company, headquartered in San Francisco, California. It was only after a beta launch in 2010 that the company was officially launched in this city (2011). By 2015, Uber was operating in 58 countries and was worth more than \$50 billion; in “August 2016 it was present in more than 66 countries and 507 cities around the world.” Therefore, although Uber has only around 6,700 employees, it is already considered a global business. (Kenney and Zysman, 2016) (Karl Tauscher) (Goode, 2011) (Martin Kenney, 2016)

“Tap a button, get a ride” is the most basic definition of what Uber enables. Better explained, it allows anyone that has a smartphone and the app to log in and by setting a pickup location, request a ride. The software program automatically sends an Uber driver - usually the nearest to the customer - to the location, from where the driver takes the customer to its final destination. An interesting fact is that drivers use their own cars, which means that by “owning no vehicles it avoids costs related to maintenance and fuel.” In fact, the company “develops, markets and operates the Uber app”. (McAlone, 2015)

“What started as an app to request premium black cars in a few metropolitan areas is now changing the logistical fabric of cities around the world.” (Uber website) With Uber, people do not need to have cash with them to pay, and more importantly, they do not have to “stand in the rain trying to hail a cab”. This is why Uber is “positioned as time-sensitive, rather than price-sensitive” - at least in the beginning, as now in some cities it is cheaper to ride with Uber than with a regular taxi.

The business model is based on peer-to-peer, as customers are both users and providers of the service. To this, Uber uses a digital platform, which enables them to “meet” and exchange

“physical services”. (Karl Tauscher) Uber is furthermore considered a network orchestrator. (Knowledge at Wharton, 2016)

Uber has evolved its business, using “technology to give people what they want, when they want it”, being it “a ride, a sandwich, or a package”. Along the years, the company has created different segments to satisfy specific needs, from UberX to UberChopper. Following there are brief descriptions of each one.

- Uber Black

Referred as “where it all started” or “Uber’s luxury service”, Uber Black uses “black cars”, which are supposed to be better and professionals drive these. Cars used are usually “black SUV or luxury sedans” and this is “the most expensive Uber service”. (Dough, 2016)

- Uber Boat

The water-taxi service, which was first launched in 2015, in Istanbul, allowing customers to travel by boats across the city central. Later in the same year it was possible to travel between Miami Beach and Art Districts, without having to cross any bridge, thus avoiding traffic, during the Art Week. Besides the mentioned ones, it was also possible to use UberBoat in Cannes and in Baltimore. This service is available in specific dates, during special events.

- Uber Chopper

Similar to Uber Boat, this is also only available in special occasions. In 2014, people attending the Coachella Festival could request a ride in one of the choppers. It was possible in Los Angeles, in 2016, to take people to Neon Carnival; and in the same year in Kenya, in two different cities.

- Uber Essentials

Although it was shut down in 2015, the “temporary experiment” Uber Essentials was an on-demand delivery business, which was meant to take basic grocery shopping to customers homes. Uber provided a list with the most essential products that someone could ask to be taken to their houses, just like a corner store. This service was only available for a limited time range and only in Washington D.C.

- UberFresh & UberEats

This was also a trial service, which provided meals between 11:30AM to 2:30PM for \$12, in Santa Monica. However, later this evolved to what it is today: UberEats. This later is associated with several restaurants and uses Uber cars to grab the food from the chosen one to the customer's address. As the company claims: "Get the food you want, from the local restaurants you love, delivered at Uber speed". (McGregor, 2014) (Ehterington, 2014) (UBER EATS, n.d.)

- Uber Garage

This is not a service provided by Uber, rather it works like an experiment lab, where new and disruptive ideas are generated and might be tested. The first trial was done in Chicago and, for the first time for Uber, regular taxis drivers could join and get access to riders. The system worked as they were black cars, and this was one of the most important factors: the company was able to learn from this test in a city where there were more taxis than the capacity ("more cars per-capita than anywhere else in the US and the second lowest rates in the nation"). The outcome was that in nowadays, Uber uses several different types of cars, not only black cars as in the early stage. (Rao, 2012) (O'Brien, 2012)

- UberGo

Launched in 2014, it was created to be a simple, quicker and cheaper solution, specially for the benefited 1.2 million Indians. Works the same way, however the cars are considered "low-cost", and therefore it makes even more affordable to ride with Uber.

- UberMilitary

It is not a service provided by Uber, rather it is an initiative to "introduce service members, veterans and military spouses to Uber and empower them as entrepreneurs and small business owners."

- UberPool

An economic option for those who want to share the cost of a ride with someone else. Make no mistake; the person with whom a customer is sharing the ride with is probably a stranger. The app looks for people who selected the "Pool" option, which are nearby and are going the same way. This is a very popular option in several countries, where people are not concerned with spending more time in exchange for less money.

- Bobbi Brown x Uber Retouch

As part of the promotion of two new products, Uber partnered with the cosmetics brand Bobbi Brown, so that riders could learn makeup tips “on-the-go”. This initiative was because in these busy days, women do not have enough time to prepare themselves at home, and therefore many reported to apply their makeup while in transit to work. These trips were available in L.A. and New York and took approximately less than ten minutes. (Strugatz, 2016)

- Uber Rush

As an extension of Uber Essentials, this service works more similarly to FedEx or DHL: when a customer buys a product, he or she is given the option of choosing Uber Rush to deliver. Uber assumes to have a faster and cheaper “on-demand delivery” system. Uber Rush in New York uses bicycles. (Uber RUSH, n.d.)

- Uber Select / Uber Plus

Not as luxurious as Uber Black, this is between that and the regular Uber service. In this case, the cars that are commonly used are BMW, Audi or Mercedes, for example, and have leather interiors. (Dough, 2016)

- UberTaxi

With Uber Taxi, people can connect with a local cab, however instead of hailing from the street, customers use the Uber app and just equally they do not use cash to pay the driver. This integrates Uber users with city taxis, which brings on the one side, more providers, and on the other, less people against the business.

- UberX

This is the most common Uber service. Being also the most used one, selecting this type of trip people get a more affordable ride, whether it is during the day or night. Instead of choosing Uber Black, which requires “black cars”, people ride in a more “common” car. (Dough, 2016)

### *Pricing*

While taxis usually keep entrants out of their market, when in fact it should be easy to enter, Uber on the other side found a way to keep drivers on the streets available for customers. With its “surge pricing”, Uber drivers have an incentive to work during weekends, holidays, nights or even when it is raining a lot. Besides linking “drivers with customers wanting a ride” - in the same way that “eBay links sellers and bidders” - the company uses a price scheme, which when demand raises the price follows it and increases as well. The most known case was in the very beginning of the company’s activity, in the New Year’s Eve, when the price went up to seven times the normal price, with the minimum fare being \$175. Customers complained a lot, referring to it as “highway robbery” on the social media, such as Twitter.

This surge pricing is often referred as price discrimination, however, instead of changing prices depending on the customer’s age, for example, it changes accordingly to the time a customer requests a ride. As mentioned already, it is usual that price increases when it is 2:00AM or is raining, and often on weekends. (Amstrong, 2006)

Furthermore, it is argued that this type of solution should be welcomed: “if a firm charges the same price to all customers, in the case of price drop, the sales will probably raise, however leaves out the revenues that could come from people willing/prepared to pay more”. In this way, when the price raises, drivers are more willing to be available to work. This is mainly due to the percentage Uber gives them - 80% of the charged price - which means that the higher the price, the more drivers earn. Accordingly to Jean-Charles Rochet and Jean Tirole, “this strategy is common for firms that operate platforms or “two-sided” markets which link buyers and sellers”. (The Economist, 2014) Uber justifies the usage of surge pricing to “encourage more drivers to come online and pickup passengers from the area.” (Kedmey, 2014) Moreover, very often when the price surges, people tend to wait for the price to drop, which brings the demand and supply closer, as more drivers go to that neighborhood and thus the number of cars and people wanting a ride approximates.

While some economists argue that this is exactly what happens with hotels, airlines or car rental companies - the dynamic pricing - meaning that these charge different prices whether it is a weekday or a weekend, as demand surges; Others defend that “consumers like predictability”, and therefore prices should not change, as people are used to have a “regular” price for a bottle of water, for instance, and “a relatively average price for a taxi”. (Bilton,

2012) Although all critics, Uber was trying to patent this technology (in 2014), however the U.S. patent office has rejected for “obviousness”. (TIME, 2014)

### *Competition*

The State of California was the first to recognize the services’ category “Transportation Network Companies”, as in September 2013, the California Public Utilities Commission (CPUC) voted to create this new category. The most benefited companies were in fact Uber and its main competitors, who are all inserted in this group.

When one regards a company, it is important to know its competition. In the case of Uber, three companies were identified as important to refer, for various motives: Lyft is probably the most similar company to Uber (or as some affirm, Uber copied Lyft’s business model); Cabify works the same way as Uber, however it is only present in Latin America, Spain and Portugal and it is not only focused on private riders, but also on corporate clients; lastly, Easy Taxi, which is mainly to taxi drivers, instead of relying on independent drivers and therefore it although it is using the same business model as Uber, it is benefiting those who are against the company.

- Lyft

Lyft, the company whose “mobile app facilitates peer-to-peer ridesharing” is the most similar to Uber, which for many is not a coincidence, affirming that Uber indeed copied their model. Five years later of being founded, Zimride launched, in 2012, the ridesharing company that is known as Lyft. The company was meant to satisfy those customers who wanted a shorter-distance ride (in the same city), which was the opposite of what Zimride was doing: this connected people who wanted to travel between cities (longer trips). (Lawer, 2013) (Johnson, 2016)

- Cabify

As well as Uber or Lyft, Cabify is an international transportation network company, which links customers to premium cars’ drivers through a smartphone mobile app. People may use the application in Latin American countries, such as Brazil or Mexico, and in both Portugal and Spain. The company was founded in the beginning of 2011 by Juan de Antonio, mainly due to his previous experiences with taxi rides in Asia and Latin America: from having to negotiate the price prior to the ride, to having trouble getting a receipt. The company was first

established in Madrid and Barcelona, however the idea brought attention from Silicon Valley. Although the starting point was being a slightly more expensive service than a regular taxi - as they used better cars - later the company created “Cabify Lite”, which was supposed to be cheaper, using “mid-range vehicles”. One year ago this “segment” represented about 85% of the company’s offer. (Avendaño, 2016) (Cano, 2016) (Morales, 2014)

- Easy Taxi

Similarly to how the already mentioned “transportation network companies”, this one was thought when one of the founders, Tallis Gomes, found it difficult to hail a taxi in a rainy night, in Rio de Janeiro. He first thought of creating a system that could track buses, however he decided to change to what it is now: a mobile app, which enables customers to book and track taxis on real time. The application, founded in 2011, is in use in over 30 countries and more than 420 cities around the world. Although it is not considered a direct competitor of Uber, it is in fact an indirect one, as it allows people to book a ride and track the selected car - the main difference is that the drivers are indeed taxi drivers, rather than “anyone” who has time and a car available to “make money”. (Gazzoni, 2014) (Correa, 2013)

### *Financials*

The first funding was in 2009, when Uber received \$200,000 in seed funding. After this, the company got increasingly more and more money: in October 2010 an additional \$1.25 million (First Round Capital), in February 2011 it closed a \$11 million Series A funding round - valuing the company at \$60 million - and later that year another funding (Series B) round closed at \$32 million. In 2013 Google Ventures invested \$258 million (Series C funding), increasing the company’s value to \$3.76 billion. In 2014 the startup raised \$1.2 billion at a \$17 billion valuation and later in the same year, Uber “raises \$600 million from Chinese search powerhouse Baidu”. Until now, Uber has raised around \$11.5 billion from both venture capital and private equity investors. Since 2014, the company has grown from \$495.3 million to \$1.1 billion in net revenue. (Huet, 2014)

### *Founders*

Cofounder and CEO of Uber Technologies, Travis Kalanick, aged 40 is an American entrepreneur. Considered as number four on the Forbes list of “America’s Richest Entrepreneurs under 40”, in 1998, he decided to drop out of University of California Los

Angeles (UCLA) to create Scour Inc., a “multimedia search engine” and Scour Exchange, which was based on enabling “peer-to-peer sharing files”. After having to shut down due to a lawsuit, him along with others, created Red Swoosh, which was the same as Scour Exchange. After selling the company for \$19 million to Akamai Technologies, he and Garrett Camp founded Uber Technologies. (Kosoff, 2015) (Forbes, n.d.) (DCWEEK 2012, n.d.)

Garrett Camp, 38 years old, is the other cofounder of Uber and is also the Chairman. The Canadian entrepreneur, who is considered to be the third richest Canadian, founded StumbledUpon as soon as he graduated from University of Calgary, in 2002. This company was the first “web-discovery or search without a query platform” and it was acquired by Ebay in 2007, for \$75M. Years later it was “re-acquired by Camp”, who “regained a majority share of the company”. Garrett is considered number 35 in the Forbes list “Richest in Tech”, as well as occupying the same position as Kalanick, as the number 4 in the “America’s Richest Entrepreneur under 40” list. (Forbes, n.d.) (McCullough, 2011) (Helft, 2007) (Borzo, 2010) (Tsotsis, 2011)

## Airbnb

### *Company Overview*

Founded in August 2008 in San Francisco, California, the “peer-to-peer online marketplace and homestay network” is now present in more than 191 countries and over 30,000 cities in the world. The idea of having a platform where people could find “short-term living quarters and breakfast” emerged during the founder’s participation in the Industrial Design Conference. Brian Chesky and Joe Gebbia aimed to explore the opportunity they saw in the saturated hotel market: many people were not able to book an hotel. Therefore, they created this network, which enables people to list or rent properties - being these either a room, a house, and apartment or even tree houses or castles. The first brand name, “Airbed and Breakfast”, came up when both founders bought three air mattresses and put in their apartment to rent and breakfast was included - in the first night they had 3 guests. (Brennan, 2011) (Choudary, n.d.)

“Connecting people to unique travel experiences” as a motto, Airbnb started with the two roommates - Brian and Joe - renting their loft and evolve to being a worldwide “accommodation marketplace” that connects hosts (people who have a property to rent) with travelers (people who use the property). As the company mentions, it “is the easiest way for people to monetize their extra space and showcase it to an audience of millions”, making money by charging a “service fee” to both the property owner and the guest. Likely to Uber, it does not own any type of property by itself. Accordingly to the business model, for Airbnb what matters is how many people (hosts and travelers) might be encouraged to create inventory for the company, as with this approach Airbnb does not have to build, like a hotel chain would do. (Carr, 2011)

There is one thing that Airbnb is highly concerned with: customer service. One of the founders mentioned that the company wants to have aligned metrics and procedures, especially in regards to the hosts’ service. The “Hospitality Lab” was created to “train hosts on nine key standards of hospitality” - it works through offline workshops and web seminars. Airbnb aims to have a customer service similar to what the hotels have - treating all customers in the same way, with respect - and furthermore, reducing the disparity that exists between hosts. (Yeung, 2013)

Airbnb relies its sharing economy mainly on the review system, even some argument that “reviews are the glue that keep the sharing economy together”, however the system has changed. At first, the reviews were published as soon as they were submitted, and now they are only made public after both hosts and guests complete it. On the one hand, the first way might prevent people to be fully accurate on their review, since there might be social pressure for a positive feedback or fear that the host/guest writes a negative review as “revenge”. On the other hand, the new adopted system does not allow this to happen, nevertheless because it has a 14-day review period, people might use this time to get more bookings, instead of submitting the review and have the danger of suffer from a not-so-good-feedback. (Friedman, 2013) (Porges, 2014)

### *Pricing*

The pricing model is very simple: Airbnb charges a fee to both hosts and guests in each reservation. Hosts do not pay a monthly or annual fee, which enables Airbnb to charge in

other way: for every booking, 3% is charged to the host and a rate between six and twelve percent over the total amount is charged to the guest. This last fee may include any taxes and/or cleaning fees. (Couts, 2012)

The total amount of nights booked through Airbnb has been increasing over the years: in 2011 the company reached 1M nights since its launch (2008); in the beginning of 2012, the number increased to 5 million, which was short accomplishment, as after five months the number doubled (10M). It is worth to mention that only around 25% comes from the United States. (Couts, 2012)

### *Competition*

Unlike Uber, which has competitors that are doing “the same thing”, Airbnb is broader regarding its competition. If one looks to any hotel in a city where Airbnb operates, it is surely possible to state that the hotel is a direct competitor, however what follows is some information about those platforms, which work similarly to Airbnb.

- HomeAway

This one may be the most similar to Airbnb, as it is a “vacation rental marketplace”, which “helps families and friends find the perfect accommodations to enjoy their dream vacations together”. Founded in 2005, it is currently present in over 190 countries and it has been acquiring several competitors over the years, such as VRBO (U.S.), AlugueTemporada.com.br (Brazil) or BedandBreakfast.com (U.S), for instance. (HomeAway, n.d.)

- Tripping

Founded one year later than Airbnb, the “search engine for vacation rentals” has *only* - when compared with Airbnb - 5M listings. It is slightly different from Airbnb as it aggregates information from several websites and allows users to compare properties available in, for example, Booking.com, HomeAway or FlipKey. (Magee, 2015)

### *Financials*

In the very beginning, when the website was launched, the founders needed money to fund it and continue to run it. Therefore, Chesky and Gebbia created a special edition of breakfast

cereals. It turned to be such a success that they earned around \$32,000 in a short period of time. More important than the dollars they made was the attention of Y Combinator's Paul Graham. (Spors, 2008)

Airbnb raised \$7.2 million in a Series A funding in the end of 2010 and six months later there was a major investment by Ashton Kutcher. (Wortham, 2011) In a Series B, the company raised \$112 million. (Malik, 2011) Almost one year later the first funding, Airbnb got \$119.8 million in new investment from several ventures. In 2014 TPG Capital invested \$450M in the company and it was valued around \$10 billion; only a year later the company doubled its valuation (\$20 billion). Since 2008, Airbnb raised almost \$800 million, and in 2015 it was considered the second most valuable transportation startup, right behind Uber. In that same year it raised \$1,5 billion, and in the beginning of 2016 around \$555 million funding from Google Capital and Technology Crossover Ventures, rising its value to \$30B. (Clampet, 2015) (Nusca, 2015) (Farrell, 2016)

#### *Founders*

Brian Chesky is the CEO and Cofounder of Airbnb. The 35 years old American, which was considered one of TIME's 100 Most Influential People for 2015, met Gebbia in college - while they were both studying at the Rhode Island School of Design (RISD). He was already working as an industrial designer and strategist at 3DID when he moved to San Francisco and happen to share his apartment with Joe. Moreover, Chesky occupied the seventh position in the America's Richest Entrepreneurs Under 40, in 2015. (Forbes, n.d.) (Airbnb, n.d.) (Office, 2014)

As well as Chesky, Joe Gebbia is thirty five years old American, who studied at Rhode Island School of Design. It was indeed Gebbia who convinced his-now-partner to move to San Francisco to start a business together. For that they would have to quit their jobs and be fully committed to the new project, however they found that the rent had gone up and they needed to find a solution for it. As two entrepreneurs, "in a matter of days" they came up with the "Airbed and Breakfast" idea. The CPO and Cofounder of Airbnb was listed equally in the America's Richest Entrepreneurs Under 40 in 2015. (Airbnb, n.d.) (Forbes, n.d.)

## Creating value

Accordingly with the “platform for shared value creation model”, developed by Young (2016), there are six factors of a platform, which contribute to the creation of value. The analysis that follows links and explains the model applied to the companies in study: Uber and Airbnb.

The first element regards the existence of a need that a certain company satisfies through its product or service. It is known that the main purpose of a company is to satisfy its customers, looking to their needs and wants and thus “give” them. Considering Uber, the need was a transportation option, which took the company to create a simple way for people to get a ride, with only their smartphones and a connection to Internet. The existence of taxis explains that there is actually a need. Likewise, Airbnb created a marketplace where people could have an option to the existent hotels. Most important, in both cases, these companies allowed people to use and make money from an “unused” resource, as a car or an apartment, for instance. This is in fact the main and common need that both companies are solving.

This solution takes the analysis to the second component: the company builds a platform as the main system to deliver the solution to its customers. The model uses the study of Latitute and Shareable (2010) to define the elements of the platforms, such as its life-cycle, community design and currency. In the case of Uber and Airbnb, the life-cycle is “Synchronou”, as it predicts that several people use the same good (either a car, which turns to be a service: ride; or a house), once at a time and then “return it to the central pool”, meaning to the platform itself, so that it may be used by someone else afterwards. Furthermore, the community design is a “peer-to-peer”, as already mentioned. The definition given in the paper is that “members pool their own assets to share amongst other members”. (Young, 2016) Lastly, the used currency is money – being either through credit card or the currency itself.

The creation of value through interactions is the third aspect of the model. This one is easier to understand than it seems: for these platforms to work, it is necessary that there is one provider and one user; if not, then no value is being created. The value in this case might be also regarded as monetary, since both companies get a fee on each “transaction”.

The next stated constituent is about the network effects. As explained in the literature review, value increases as the community grows, which is the same as saying that the more users, bring more value to the platform. If there are more people using the platform, it means that Uber, for example, can better satisfy the demand or supply: more people means more providers or users.

The fifth element concerns about what kind of value is generated and in which forms. Taking once again the cases of Uber and Airbnb, the financial value has already been shown and is clear that it has been created over the years. The value of the platform itself is indeed what brings more value, as it is through it that companies deliver their products or services and, in the end, rely their business. If one compares both companies and the value that each brings to the users, for instance, in the case of Uber users might perceive as “just a ride”, meaning that the service is a short-term one; in the case of Airbnb, the perceived value is different as people spend vacations, for example, in someone else’s home, which requires more trust by itself. In the given example, it is possible to understand why Uber does not allow people to choose their driver, while Airbnb requires users to choose where they want to stay. It is a matter of trust and both companies work differently in this aspect, since reviews in the Airbnb platform are given in the form of text, while in the case of Uber it is a rating system. The value for Airbnb users might be seen as “bigger” than the generated value for Uber users.

The last component of the model relies on the assumption that “continued engagement and ongoing evolution creates more opportunities”, which is that companies and customers (participating organizations) keep benefiting from the competitive advantage. When the relationships grow and are intensified, what may happen is the emergence of new market opportunities, as Uber found through its several “types” of services, for instance. This will possibly strengthen the whole business.

## 5. Conclusions

The question of how to create value is not simple and surely does not come with a “recipe answer”. This study tried to analyze what are the factors that contribute to the value creation.

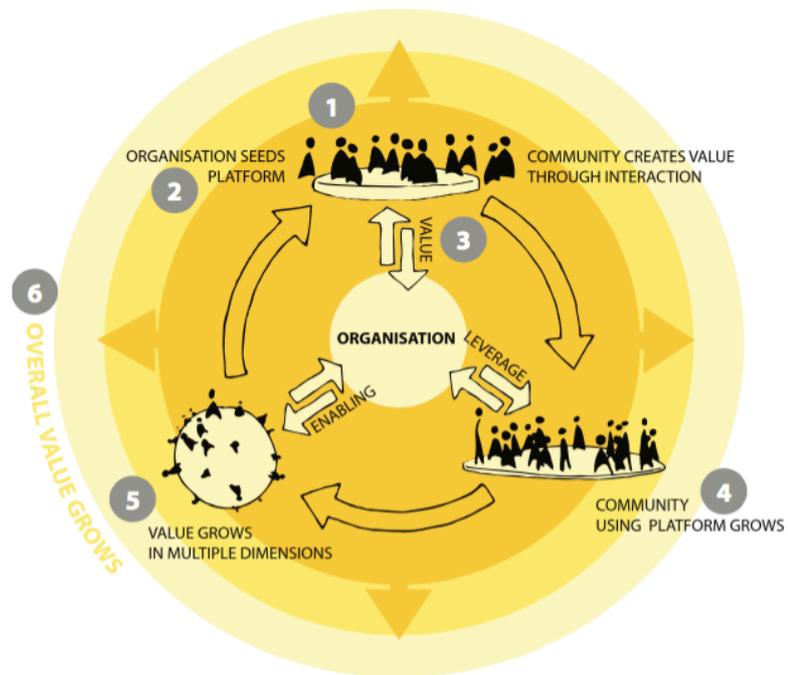
The principal assumption is that companies, which use digital platforms to build their businesses operate in what is called “sharing economy”: where the *peer-to-peer-based activity of obtaining, giving, or sharing the access to goods and services, is coordinated through community-based online services*. Sharing economy allows companies to deliver a product or service with lower transaction costs, and therefore available to a wider population. This is enlarged when one adds the network effects that this type of business model has. In a digital world, the network effects are one of the main responsables for the “viral growth” of companies. Moreover, the usage of digital platforms enables people to maximize resources without much effort: Uber allows people to use their car, which might be stopped in the garage; or Airbnb that provides a easier way for customers to make an extra money with a property, which is not in use.

Understanding the companies in question is very important, and that is why an overlook to the main aspects of each company is taken. Companies like Uber or Airbnb are changing our world and modifying business models. Considering customers as both providers and users is something new and interesting to analyze.

Lastly, a studied model is taken into consideration, showing six main elements of value creation through a platform. Basing on that, a comparative analysis is done, showing that indeed both companies may create value through the usage of their digital platforms.

## 6. Annexes

Figure 1: Illustration of the “platform for shared value creation” model



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