

Airbnb case analyses

[Engineering](#), [Aviation](#)



Airbnb could have implemented a better protection against such incident like “ EJ”. They could, (1). Require more complete profiles about the hosts and renters, (2). Prescreen hosts and guests, (3). Provide insurance for hosts and renters, (4). Be less restrictive on hosts when they reject unsuitable renters, (5). Differentiate price charged based on guest’s ratings, (6). Present more sophisticated consumer reviews, (7). Use incentives to encourage reporting of problems.

Instead of being reluctant to comment on the “ EJ” incident, Airbnb should have responded much more quickly to the public after the “ EJ” incident; apologize via the media to the host “ EJ”, announce proper solution to such problems and publish improvements over such safety issues.

-Assume that you were creating a financial model to determine the value of Airbnb (either for a PE firm or if Airbnb was public). What would be the key variables in your model? How would you model incidents like the one with “ EJ”. Should you bother? Why or why not? Would the “ EJ incident” be a Black Swan?

We would interweave following variables into our financial model regarding the value of Airbnb for a PE firm: (1). General economic condition (GDP): higher revenue stream for Airbnb when economy is sturdy since more percentage of rooms booked are of high quality, as opposed to larger portion of rooms reserved for saving money when economy is weak. (2). Average rent received by Airbnb hosts and current average vacancy rate of residential property, higher vacancy rate lowers the average rents charged by the hosts and therefore less fees collected by Airbnb. (3). Insurance costs, this would change according to previous incidents and corresponding compensations.

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(4). Operating expenses, including costs of customer service and marketing etc. (5) Proportion of the website traffic that transfers into actual deals.

Since our model incorporates insurance costs that relates to the unexpected incidents like the one with "EJ", the potential costs of such events has be taken into consideration. However it is still impossible to fully reflect the "EJ" like incidents in the valuation of Airbnb, incidents like or worse than the "EJ" will still probably happen and harm the reputation of Airbnb, and hence diminish the value of Airbnb.

-How would Airbnb's experience effect your valuation of social media companies?

It is quite hard to measure the companies deemed to be in social networking category, because usually the source of their income is very hard to quantify, and their core businesses could be too innovative to identify and to make valuation based upon peer values. So analysts usually based their valuation of such social media company upon the cash flows provided by the company and do not check the credibility of such figures.

Airbnb's experience arouse that analysts should check the thoroughness of its business when valuing a company, whether the company has predication and solution of probable shrunken revenue. Besides, the basis of a company's revenue stream should also be tested for its applicability; what is the true propeller of a company's business that sustains the life of a company. What is more critical is the manager's capability of facing unexpected events, how a leader reacts to a disaster also determines whether the firm value falls.

-How do the Gartner metrics work relative to traditional financial metrics?

The Gartner business value model complements rather than competes with the traditional financial metrics, it is an extension to standard precisely defined measures for business value and sits between strategic methodologies and enterprise specific measurement tools and capabilities. Besides choosing among the “collectively exhaustive” and “mutually exclusive” three categories of aggregate measures, companies can also utilize additional internal metrics to tailor the model to their own needs.

Traditional financial metrics have dominated in reporting and measuring business performance for decades, as markets emphasize the achievement in such metrics and financial metrics are used as a comparable basis for executives to judge relative performance in different parts of their business. However, financial metrics failed to reflect how value is created in organizations and compare this consistently across business units. Financial metrics only reflect past performance.

The Gartner metrics are non-financial performance metrics utilized to help organizations identify how their activities impact financial performance. The Gartner metrics standardize the process and benchmark of measuring the real drivers of business value. The model is comprised of three broad aspects: Demand Management, Supply Management, and Support Services. And each of these business aspects is broken down into three aggregate measures.