

Google, eBay, Amazon - Management Challenges in Networked Business

Introduction

Airbnb is known for transforming the accommodation industry with a platform enabling information exchange between lenders and renters, while growing exponentially since its inception in 2008. In accordance with its strategy to become the “super brand of travel”, the company has recently introduced a new in-destination service called TRIPS.

With regard to the given case, my analysis consists of the following three parts:

Firstly, I will discuss Airbnb's business model, pricing decisions, and platform, based on Shapiro and Hal (2001) and Eisenmann (2007). Also, since the target companies for Airbnb's attack are *reciprocally specific complements* to its current platform for traveler's accommodations, I will address the strategy as *envelopment of complements*.

Next, I will evaluate those four major challenges Airbnb has faced, three rationales behind the introduction of TRIPS, and the existing companies in the market, based on various *cases and readings* from the course. I will address the possible argument from one side that the new feature is a real threat since the *paradigm change* triggered by Airbnb TRIPS might systemically change the industry dynamics and significantly lower the entry barrier of the entire industry. I will also present the opposing argument that the existing players has no limitation to joining Airbnb's platform for selling their products.

Lastly, I will state that Airbnb has the potential to become a winner-take-all market due to strong network effects, multi-homing cost, and little need for differentiation in platform functionality. As well, I will assess strengths and weaknesses held in Airbnb's strategy, based on opportunities and threats new TRIPS feature presents. While doing so, I will compare the situation with other case companies. Thereafter, I will make a recommendation on how competing companies should respond to Airbnb threat, based on Eisenmann et al. (2010) who suggests three strategic approaches: 1) change business models, 2) find a “bigger brother”, or 3) sue.

Discuss Airbnb's business model, including its pricing decisions, using the technical vocabulary from the readings.

Discussion on Airbnb's background, business model, and pricing

Business Model & Market Structure

Airbnb was initially created to resolve a *pain point* latent in the hotel industry of San Francisco (Teixeira and Brown, 2016).

By recognizing the underutilization of assets in the form of spare room capacity, Airbnb has effectively created a sharing-economy-based intermediation service for the accommodations. Airbnb facilitates the information exchange and subsequent transactions in a two-sided market between lenders and renters. As such, Airbnb has commoditized a private residential spare room capacity by creating an exchange around it, significantly reducing the transaction costs involved—reduced search and contracting costs—reducing the risks involved and thus filling an *institutional void* (Khanna et al., 2005).

As many literatures present, businesses that simply sells information commodities are not likely to be sustainable since information goods usually has *high sunk cost* and *extremely low marginal cost*. Hence, Shapiro and Hal (2001) set out two sustainable structural models for an information market: *dominant firm model* and *differentiated product model* (Shapiro and Hal 2001, p. 24-25).

In Airbnb's case, its products are relatively standardized, and its large scale operations can lower transaction costs through economies of scale. As a result, the company could afford to lower the commissions for the lenders, thereby attracting them to the platform. Therefore, the company is characterized as more of a *dominant firm model*. For such firm in a dominant firm industry, it is critical to maximize network effect and scale up the business for achieving cost leadership.

Pricing Decision

In Airbnb's model, hosts receive subsidy. Hosts are charged 3% commissions, while guests are charged 6-12% (Ting, 2016). Such commission format stems from the fact that hosts are more price sensitive. As shown in *Airbnb, Etsy, Uber - Acquiring the First Thousand*, all three companies had to incentivize the supply-side of the market to join the platform since the supply-side was generally harder to attract than the demand-side (Teixeira and Brown, 2016).

With regard to the actual pricing of the accommodation, *differential pricing* practice is applied. On this matter, the Economist A. C. Pigou introduced three paths towards differential pricing: *personalized pricing*, *group pricing*, and *versioning* (Shapiro and Hal 2001, p. 39). In case of Airbnb, its listings do not charge different prices to each user nor set prices differently across user groups. Meanwhile, the same product (housing listing) has various aspects that may result in different price points. Hence, its pricing practice demonstrates that of *versioning*.

Such dynamic market with *market negotiation based pricing* automatically creates an environment where the lenders have to adjust their price level on the basis of consumer willingness to pay (WTP) determined by demand and their offerings.

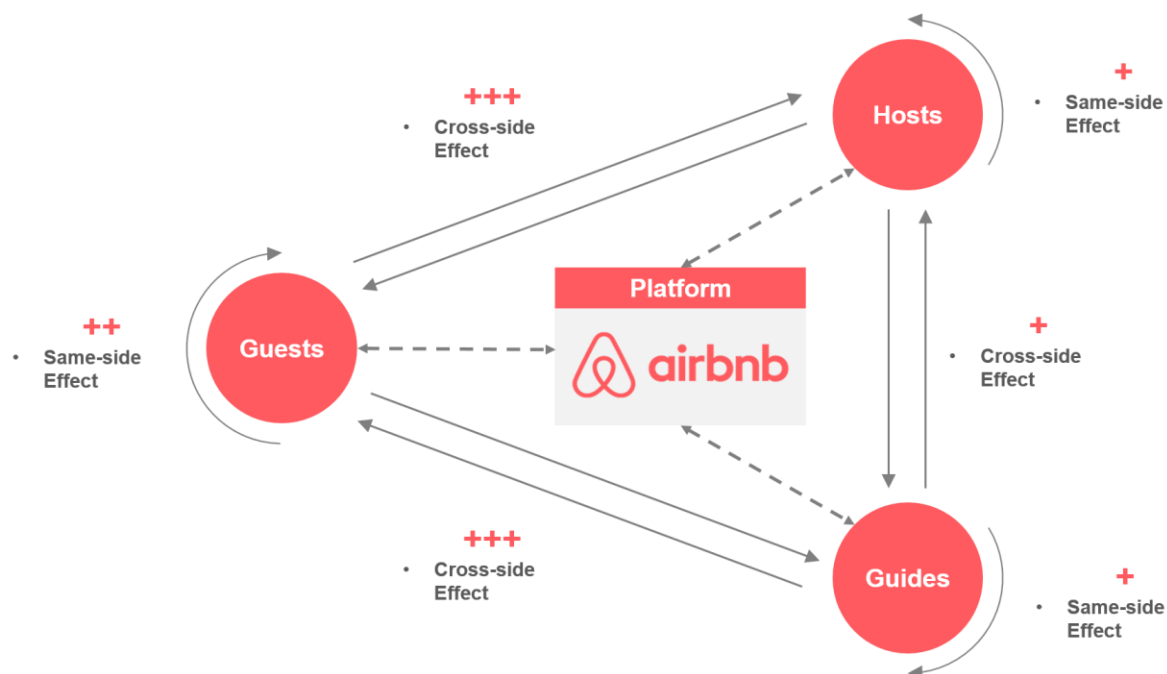
Some scholars argue that consumers may find *versioning* strategy “annoying” (Shapiro and Hal 2001, p. 72). It is not the case for Airbnb, though. Differential pricing through *versioning* is highly justifiable for Airbnb due to the vast range of selections it provides.

How many sides does this networked business have? Who are the key users?

According to Eisenmann (2007), the number of sides involved in a networked business is to be determined by the number of roles that users play within the network.

In the original business model, Airbnb represents a two-sided platform mediated networked business. The key users in the business are divided into *money side* and *subsidy side*. The *money side* is the house owners with an extra space or a room (hosts); the *subsidy side* is the people looking for accommodation (guests).

In addition, Eisenmann (2007) discusses how some networks can involve three different sides. This case is not as common as one or two-sided networks, but such companies as YouTube encompass “three sets of network users: content consumers, third-party content providers, and advertisers” (ibid.). This notion deems specifically relevant because of Airbnb’s introduction of a new revenue stream. Recently, the company announced the establishment of AirbnbTRIPS, which makes it a *three-sided* network by means of another role that the users perform (guides). Based on this classification, I have visually established the *three-sided networked business* model in the figure below:



Would you consider AirbnbTRIPS a case of envelopment? Why?

Defined as “attackers secur[ing] strategic advantage by recombining valuable resources – user bases – into multi-platform bundles” (Eisenmann et al., 2010), platform envelopment is a solid strategic management practice in platform-mediated markets.

A famous example is shown in Microsoft’s attacking Netscape by tying Internet Explorer to its operating system, taking advantage of its dominance in the market (Liebowitz and Margolis, 2001). Another example is demonstrated in Google’s *foreclosure envelopment attack* on eBay’s PayPal (Eisenmann and Barley, 2007), where they *carried over* the current platform elements such as search ads and account information to release its own payment processing solution - Google Checkout.

By such definition, AirbnbTRIPS deems a case of envelopment since it *carried over* its current user bases and the current platform elements to another feature, transforming the business into a bundle consisting of three user groups: travelers, accommodation lenders, and tour guides.

In the article *Platform Envelopment*, Eisenmann et al. (2010) presented three different types of envelopments: *envelopment of complements*, *envelopment of weak substitutes*, and *envelopment of unrelated platforms*. Even though Airbnb’s platform market is comprised of some layers of consumer traveling journey, Airbnb is currently only occupying one layer – accommodation. However, due to the strong economies of scale in the dominant firm model, Airbnb has the capability to serve as a platform provider in other layers as well. Given that the Airbnb is attacking tourism companies, travel agencies, online travel planning platforms, etc., the user base of these platforms is ‘*reciprocally specific complements*’ (ibid.) to the current traveler’s accommodation platform. Therefore, the company’s introduction of TRIPS represents *envelopment of complements*.

In conclusion, Airbnb’s new TRIPS feature is considered an *envelopment attack* to many companies in the travel industry since it utilizes the existing platform and user base to add another feature. More specifically, it is a case of *envelopment of complements* since the target platform is *reciprocally specific complements* to the current platform.

Based on the other cases and readings for this course and on the article below:

Describe the major challenges Airbnb faced since its inception in 2008.

Due to the limited scope of the paper, the discussion will be focused on the four major challenges that the company has faced: 1) proving potential, 2) acquiring critical mass of users at the beginning, 3) legal issues, and 4) growing both the demand and supply sides.

Challenge #1: Proving potential of the startup

As demonstrated in the cases of Google (Eisenmann and Herman, 2006), Uber (Teixeira and Brown, 2016), and Facebook (Deighton and Kornfeld, 2013), which received funding from elite venture capitals such as Sequoia, proving potential as a startup to investors is critical yet difficult.

As shown in the investment proposal case rejected from a major venture capital - Union Square Ventures (Teixeira and Brown, 2016), not all the inventors were very positive about Airbnb's potential at the seed stage. As well, many investors were suspicious about the Founders' capabilities because both of them were designers. As Chesky once mentioned, the Silicon Valley investors thought they only "make things pretty" (ibid.).

Challenge #2: Acquiring critical mass of users at the beginning

As seen in such examples as Etsy and Uber (ibid.), and eBay vs. Yahoo! in Japan (Oberholzer-Gee and Wulf, 2009), being quicker than others and acquiring a critical mass of users while building up brand (a tactic called *preemption*) is definitely pivotal for a networked business startup. Information companies work with *demand side economies of scale*, and *positive feedback* is employed by the market (Shapiro and Hal 2001, p. 173). Overcoming the *excess inertia* or the *Penguin Problem* is also one of the most difficult stages every startup company goes through (Liebowitz and Stephen, 2001). Therefore, many networked business startup companies are desperate to acquire a critical mass of initial user base as soon as possible.

Airbnb was not an exception. Despite of the high consumer interest in its services, achieving an initial growth of user base was a significant challenge. Therefore, Airbnb has chosen to use a growth hacking technique, so called '*poaching*'.

At an early stage, Airbnb identified that the single largest platform for its potential customers was Craigslist (Teixeira and Brown, 2016). As Airbnb pursued *revolution strategy* (Shapiro and Hal 2001, p. 195), it believed that its *superior website* and *product functionalities* would make the consumers switch to its platform from Craigslist. As proven by Dave Gooden, Airbnb set up a hacking system to send an automatic email to the person who posted a vacation home on Craigslist to check out Airbnb (ibid.). Although such '*black hat operations*' may go against Craigslist's rules, it is not illegal according to Business Insider's analysis (Rosoff, 2011).

The company was able to overcome the challenge of initial user acquisition through this method, while such approach faced a lot of criticism in terms of ethics and allegedly undermined the company's reputation.

Challenge #3: Legal challenges

Many networked businesses face regulatory challenges for various reasons. For example, Uber has faced regulatory challenges such as government's public safety concerns, Shannon Liss-Riordan's class action lawsuit, and transportation company classification (Kirby et al., 2016). MTC has also faced regulatory tensions in Africa due to the requirement for each country's business approval and its foreign ownership shareholding constraints (Khanna and Khan, 2009).

Likewise, Airbnb has been subject to many legal challenges. In 2013, such boom in tourist apartment rental caused serious problems in Berlin, and the city officials passed a law banning short-term tourist rentals for certain apartments (Spiegel 2013). In addition, Barcelona city officials were particularly concerned with Airbnb offering unlicensed accommodation to public. Accordingly, they recently fined Airbnb €600,000 for violating local housing laws (Badcock, 2016). In a similar context, legal disputes with the regulators of U.S. cities are rising issues (Kassam, 2014).

These legal challenges are still on-going in numerous markets where Airbnb operates, while some cities, such as Amsterdam, has implemented 'Airbnb firendly' laws accordingly (ibid.).

Challenge #4: Growing both the demand and supply sides

Apart from the importance of acquiring the initial critical mass of users, another challenge that Airbnb faces is keeping the balanced growth of both the demand and supply sides. Due to the strong cross-side network effects, it is crucial that Airbnb should grow both sides at the same time since an increase in users on one side will lead to an increase in the other.

Meanwhile, as shown in the cases of Etsy and Uber (Teixeira and Brown, 2016), these companies have put the initial focus on acquiring the supply side of the network by giving them incentives (Uber) or proactively reaching out to them (Etsy). Similarly, overcoming the *excess inertia* of the supply side was particularly challenging, which led Airbnb to take such approach as *poaching* discussed above (ibid.).

As Conley said, "The part that I'm excited about is, I think, [Airbnb Trips] is going to build supply" (Ting, 2016), it is evident that Airbnb expects potential supply side users to be excited about partaking in it and hopes for less challenges in supply-side market for the new feature.

What was the rationale behind introducing TRIPS?

Airbnb has introduced TRIPS for three major reasons: strategic expansion, match with company DNA, and reinforcement of the business model.

First of all, as Conley mentioned, Airbnb's ambition is to become the "super brand of travel" (Ting, 2016). In order to have its ambition come true, Airbnb may have to provide a wide range of services covering the entire consumer journey of travelling, not just accommodation. Now that Airbnb has acquired a mass user base over several years, the company is able to utilize its existing products and pursue *envelopment* strategy as analyzed previously. Since introducing TRIPS is a step towards providing services for the entire consumer journey of travel, it is regarded as a rational strategic expansion approach.

Next, the TRIPS feature matches Airbnb's corporate DNA. As Conley said, accommodation is merely a sub segment of the products the company can provide in the exchange market (ibid.). Given such corporate DNA of sharing economy and having no physical ownership of services, the new TRIPS feature may be a great fit since the platform mediates exchange between the locals interested in becoming a tour guide and the tourists interested in personalized traveling experience.

Lastly, Airbnb has released the new TRIPS business, expecting it to reinforce the current business model. As Conley mentioned, Airbnb's vision is to become a "transformational business", not a "transactional business". It is also possible to capture better margins by transforming people's lives (Ting, 2016). In accordance with this notion, the new TRIPS feature charges users 20% of the total trip amount as commissions, which is significantly higher than the rate (3% from lenders and 6-12% from renters) in the current accommodation business (ibid.). This practice supports the notion that the new feature will not only establish another revenue stream for the company but also bring about increased profitability. As a result, the business model will be strengthened.

For now, it is evident that the major rationale behind introducing such feature comes from the strategic expansion plan, company DNA, and reinforcement of the business model. Later in the paper, the opportunities and risks from the introduction of TRIPS will be discussed further.

What kind of existing players is this new feature threatening? Is it a real threat? Provide arguments for both positions.

The existing players that may be concerned about Airbnb's market entry are tourism companies, audio guide providers, travel agencies, online platforms (e.g. TripAdvisor, MapMaker (Roboadvisors), Travelmate, Google Trips, etc.).

Why is it a threat?

Traditional travel service providers such as tourism companies or travel agencies typically take ownership of the entire service process ranging from transporting the customer to equipment, etc. By bringing a *paradigm change* (Liebowitz and Margolis 2001, p. 143) to the market, Airbnb will systematically lower the entry barrier to the whole travel industry. Therefore, one may argue that such feature will be detrimental for tourism companies since it will naturally increase the competition significantly.

Although this issue will be discussed extensively later in the paper, such platform created by Airbnb exhibits *strong network effects*. The existing players might be worried since such increasing returns could lead to *Tipping* where the momentum in Airbnb TRIPS's market share growth results in an inevitable single platform's market domination.

Why is it not a real threat?

Even though the platform enables individuals to create an experience, there is no limit to the tourism companies and travel guide providers in joining and selling their services on Airbnb's platform. Even synergies are expected since it will create a bigger market place where smaller tourism companies can target a bigger consumer markets.

As the article describes, the company intends to become a “super brand of travel”. Do you think Airbnb has the potential to become a winner-take-all?

Discuss if Airbnb’s is likely to be a winner-take-all market according to Eisenmann’s framework.

In his literature, Eisemann (2007) introduces *four-factor framework* to determine whether the new networked market represents winner-take-all or not. Those factors are 1) whether the market is a “natural monopoly”, 2) strong network effects, 3) multi-homing costs, and 4) users’ preferences for differentiated platform functionality (Eisemann, 2007).

In the meantime, he suggests that, since natural monopolies are quite rare, only the other 3 factors are typically analyzed in real life scenario (ibid.).

Network effect

Overall, Airbnb’s business model exhibits **strong** network effect. As Conley mentioned, Airbnb’s current market has “global network effect” (Ting, 2016), and the company has enjoyed this effect throughout its exponential growth over the past years. The strengths of network effect on specific sides are summarized as follows:

Network Effect Side(s)	Strength
Cross-side effect between lenders and travelers (renters)	Very strong because the more lenders, the more renters; vice-versa
Cross-side effect between local guides and travelers (renters)	Very strong because the more guides, the more travelers; vice-versa
Cross-side effect between lenders and local guides	Somewhat strong due to positive network externalities
Same-side effect of host	Somewhat strong because positive experience of one lender could lead to another potential lender joining the platform through word-of-mouth
Same-side effect of travelers	Strong because of word-of-mouth. Also, more travelers means more reviews & ratings on the platform, which consequently leads to increase in the number of users
Same-side effect of guides	Somewhat strong due to the same logic as lenders (word-of-mouth).

Multi-homing cost

According to Eisenmann (2007), *homing costs* differ from *switching costs* because they are “borne by users due to platform affiliation”. Such costs are divided into three parts: upfront, ongoing, and termination costs. *Multi-homing cost*, which is one of the determinants of winner-take-all market, is the sum of all these *homing costs* borne by users when they “affiliate with multiple platforms” (Eisenmann, 2007).

In Airbnb’s case, multi-homing cost for lenders and guides is **high** because coordination between platforms entails difficulties. For example, once you rent out a place on one platform, postings on the others need to be deleted right away. On the other hand, multi-homing cost for travelers is **not particularly high** because it is easier for them to affiliate with two or more platforms. However, as Eisenmann et al. (2010) argues, a market qualifies for WTA as long as “at least one user side” has high multi-homing cost.

Need for differentiation in platform functionality

As shown in the examples of sharing economy companies such as Uber (Kirby et al., 2016), Etsy (Teixeira and Brown, 2016), and Taobao & Ebay (Oberholzer-Gee and Wulf, 2009), a platform that enables exchange between demand and supply sides usually requires little functional differentiation. The example of Taobao vs. Ebay (ibid.) demonstrates how localized platform design and user friendliness can provide a certain firm with a competitive advantage. Whatsoever, the core product itself, information exchange mediation service, tends to be homogeneous.

As analyzed in the previous section, Airbnb has a relatively standardized product, and it operates in a dominant firm market. Even though consumers may desire differentiation within the same product, such needs are readily met through Airbnb’s *versioning* practice. Therefore, there may be **little need for differentiation** since one platform, Airbnb, could “profitably satisfy” (Eisenmann, 2007) the needs from the majority of users.

Subsidiary conclusion

In summation, Airbnb is likely to be a winner-take-all market thanks to strong network effects, high or somewhat high multi-homing costs, and little need for differentiation in platform functionality.

Compare the strategy of Airbnb with other cases discussed in class. Discuss the strengths and the weaknesses of the company's strategy, by considering both risks and opportunities related to the new TRIPS feature.

Before assessing strengths and weaknesses latent in the company's strategy, both risks and opportunities that this specific feature, TRIPS, poses to the company will be discussed.

Risks

1. Regulatory risks:

Networked business startups are prone to constantly face regulatory risks. Airbnb TRIPS's operations may be incompliant with some of the cities' tourism laws since it lets an unauthorized or unlicensed person earn income off tourists. Therefore, its focus on "quality" (Ting, 2016) for this new feature deems more important. Meanwhile, Airbnb's current platform is already struggling with piled up legal disputes, and that fact poses a question of whether the company has internal resources for expanding its platform with a new feature at the moment.

2. Risk of resources

When entering a new market, it is critical to have top talents in the organization. From developers to marketers, introduction of a new feature requires a lot of work. Airbnb may face the risk of the organization lacking the right or sufficient human capital to support the development of TRIPS feature. As shown in LinkedIn's case (Schifrin and Shaw, 2015), attracting top talents and retaining them are critical for Airbnb's future.

3. Risk of competitive response from the existing players in the market

Even though envelopment is a strong strategy, it does not guarantee success. As shown in Ebay's failure of envelopment attack on PayPal, envelopment attacks sometimes *do* fail due to some solid defensive responses from the target companies. These actions of existing companies can potentially pose threats to Airbnb and the introduction of TRIPS. Given its significance, those threats will be discussed extensively in the later section of the paper.

4. Strategic alignment with corporate DNA

The risk that Airbnb faced in releasing TRIPS may be a case of introducing the new tourism aspects without alignment with the corporate DNA. Airbnb's corporate DNA can be best described as being a sharing economy platform provider in the travel industry with no physical ownership of services.

Unless Airbnb ensures that the new strategy is set in alignment with the company and brand DNA, it would have a risk of *under-positioning* the brand, eventually leading to *confused positioning* of the firm. Consequently, the company would not be able to become a 'super brand', ending up with no brand in the first place. In fact, Airbnb has successfully mitigated such a risk by introducing "in-destination services", which is highly aligned with the company DNA. However, as the new feature gets developed in the future, it is important to continuously evaluate whether the development is aligned with company DNA or not.

Opportunities

The new TRIPS feature in particular is regarded as a rational strategic entry to the market since none of the existing players satisfies all crucial factors for consumer experience as follows:

Tourism Company Types	Price	Immersiveness	Community	Integration with Accommodation
Online Services	O	X	O	O
Physical Services	X	O	X	O
Airbnb TRIPS	O	O	O	O

As Liebowitz and Margolis (2001) strongly argued, “Microsoft’s products have won when they were good – and have lost when they were not” (Liebowitz and Margolis 2001, p.237). Similarly in the case of Uber, the company was able to gain a critical mass of users due to its superior product offerings (Teixeira and Brown, 2016). Providing superior user experience with great designs and user friendliness is exactly what Airbnb is good at. Based on such notion, Airbnb TRIPS seems like a highly relevant strategic expansion that may bring in additional revenue growth in the future.

Next, similarly to the point discussed in section 2, the TRIPS feature will provide opportunities for Airbnb since adding another user onto the platform reinforces the network effect and makes the business model stronger. With the introduction of TRIPS, more travelers, even those people who are not necessarily looking for accommodation, could join the network. Such growth in the demand side through TRIPS will be a *positive network externality*, increasing the number of lenders through cross-side effect.

Lastly, the introduction of such feature will create synergies with company DNA, reinforcing “who Airbnb is” as a brand. As discussed several times previously, reinforcement of the brand is extremely important for the company since it will be a foundation for strong network effect and user growth.

Given the risks and opportunities related to the new TRIPS feature, strengths and weaknesses of the company strategy could be identified. Due to the limited scope of the paper, the analysis is summarized as follows:

Strengths

- Even if the existing players have addressed solid pricing practice and winner-take-all challenged, envelopment still affords opportunities for the dominant provider of another platform to enter that market.
- According to Eisenmann et al. (2010), envelopment of complement is “most likely to succeed with high overlap in platforms” user bases. The current strategy proposes to utilize its current userbase, while a lot of them are travelers. Therefore, it is highly aligned with the theory.
- Given that *network externality* is defined as “a benefit or harm experience by party B due to the actions of party A”, there will be network externalities among the sub-sections of the company.

Weaknesses

- Airbnb's strategy may not be quite sustainable as the company is already dealing with a lot of legal disputes across the globe
- The strategy requires a lot of internal resources including highly qualified labor. In case that the company is not able to capture top talents and retain them, it would face significant challenges in sustaining such strategy.
- If one of the business units (ex. tourism) underperforms or faces challenges, there would be *negative externalities* towards the accommodation business.

Give a recommendation how competing companies should react to Airbnb threat, using evidence from at least two of the cases discussed in class.

In the networked markets, companies are constantly facing the risk of envelopment due to blurry boundaries. Eisenmann et al. (2010) describes such phenomenon as playing a "three-dimensional chess" since a firm can be under envelopment attack from any directions. Even though numerous cases have shown that stand-alone firms are likely to lose if there is an envelopment attack from a big player, Eisenmann suggest that there are still hopes for these existing companies (ibid.).

In the literature, Eisenmann et al. (ibid.) suggests three strategic approaches in response to an envelopment attack: 1) change business models, 2) find a "bigger brother", or 3) sue.

1. Change business models

The first strategic approach presented by Eisenmann is just to change the current business model for surviving (ibid.). Focused providers may be able to survive from such envelopment attack by fully utilizing the existing knowledge and consumer base and altering the business model accordingly.

One potential solution for existing players in the travel industry may be to introduce a network mediated platform that can compete with Airbnb. Given the focused operations for many years, some of the existing players may already have established knowledge and consumer base within the travel industry. One of the key reasons PayPal survived eBay's envelopment attack with their *Billpoint* is that PayPal took advantage of the exact same network effect eBay dealt with (Eisenmann and Barley, 2007). Therefore, these companies may be able to survive by achieving innovation and coming up with a new networked business model that can leverage the same network effect as Airbnb's.

2. Find a “bigger brother”: establish partnerships

Another way by which competing companies could react to Airbnb threat is to find a “bigger brother”. For example, Real Networks was able to survive Microsoft’s envelopment attack because it has partnered up with large cell phone companies and TV system operators and bundled its product with partner’s services (Eisenmann et al., 2010).

Accordingly, in response to Airbnb’s envelopment attack, the existing players can potentially form an alliance with larger entities. For example, it is potential that the existing tourism companies partner up with big players such as Google, who recently launched Google Trips based its already-established platforms such as Google Maps, Google Flights, etc.

Even though the chances of establishing such partnership with these companies are not high for Google, it is certainly one of the options to consider for the existing players who are desperate for survival.

3. Sue

The last alternative is to take legal actions against the attacker, taking advantage of Antitrust law. In the example of Microsoft and Netscape (Liebowitz and Margolis, 2001), Microsoft’s envelopment attack on Netscape with its dominance in the OS market was found guilty after a long legal dispute. Similarly, Real Networks sued Microsoft for violating Antitrust Law, which resulted in a \$760 million settlement (Eisenmann et al., 2010).

However, this option seems not optimal at the moment because Airbnb does not appear to be violating the differential pricing law nor the competition policy. As Shapiro and Varian (1999) pointed out, in such examples as the Robinson-Patman Act in the U.S., differential pricing is only illegal in case that it *lessens* the competition. However, Airbnb’s entry to the market does not ‘lessen’ the competition. Rather, its dynamic pricing mechanism forces the supply-side market to adjust the pricing based on demand.

Secondly, the company does not violate the competition policy since it does not “monopolize” (Shapiro and Varian 1999, p.301) the market. Rather, it creates more competition in the industry by lowering the industry entry barriers significantly.

Subsidiary conclusion

In such industry situation that a *paradigm change* occurs through Airbnb’s envelopment attack, the best approach the existing firms can take in response might be either to *change their business models* or to *establish a partnership with a “bigger brother”*.

Conclusion

Over the years, the concept of networked business has been a rising phenomenon in both the academia and the real business world. Network businesses are different from the traditional industries we are used to. According to Liebowitz and Margolis (2001), “textbook versions of perfect competition do not accommodate increasing returns, networks, or standards”, which are the key characteristics of a networked business. Hence, there are a lot of challenges to these businesses, including regulatory risks.

Throughout the paper, an extensive analysis on Airbnb’s business model, company strategy, and new TRIPS feature has been conducted. While doing so, the paper also set out some suggestions on what actions the existing companies can take in response to Airbnb’s *envelopment of complements*.

Some may express the fear that such characteristics of networked businesses may lead to market domination and monopolization. However, as strongly argued by Liebowitz and Margolis (ibid.), consumers choose what they believe is the best product for them. Therefore, businesses must continue to innovate so as to win in this new competitive environment. Otherwise, they will not be able to survive, especially in the networked business market.

As Steve jobs, the former leader of Apple Inc., once said:

“Innovation distinguishes between a leader and a follower”

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