

AIRBNB: THE FIRST FIVE YEARS

Pablo Picasso once said, “It took me four years to paint like Raphael, but a lifetime to paint like a child.” I think you must always live and think like a child. Or have that childlike curiosity and wonder... What’s the next thing? I like to imagine the world five years from now. Or imagine what I want the world to look like five years from now. And when I think back to when we started Airbnb, we were trying to challenge the status quo. Now we’re trying to challenge ourselves.¹

— Brian Chesky

In June 2021, Airbnb was the world’s leading lodging marketplace. With four million hosts offering about seven million listings in over 220 countries and regions² and profitable third quarters in each of the years 2018, 2019 and 2020³ (in spite of the Covid-19 pandemic), Airbnb went public in a highly successful IPO. The company was founded in 2007 by Brian Chesky, Joe Gebbia and Nathan Blecharczyk. Gebbia tells the story of early Airbnb in [this video](#). This document complements his story with an early company timeline as well as additional data and details.

October 2007 – Industrial Designers Society of America conference in San Francisco. To fund their rent, Chesky and Gebbia inflate three airbeds⁴ and put together a website that offers the airbeds in their San Francisco apartment plus breakfast to conference attendees ([Exhibit 1](#)). Three attendees, who are older and closer to the mainstream than the cofounders had expected, sign up and turn from strangers to friends:

We had a 38-year-old female who worked at Razorfish. And then an industrial designer from Salt Lake City who was even older. They slept on an air mattress on our kitchen floor. They broke every assumption we ever made about who would stay on an air bed at a stranger’s house.⁵

Their first experience as hosts gave the cofounders a glimpse into the future of lodging which sustained their belief in the Airbnb model for years to come. Y-Combinator’s Paul Graham explains:

When they first tried renting out airbeds on their floor during a design convention, all they were hoping for was to make enough money to pay their rent that month. But something surprising happened: they enjoyed having those first three guests staying with them. And the guests enjoyed

¹ “Greatest living business minds,” *Forbes Centennial Issue*, September 2017.

² Source: Airbnb S-1, November 2020.

³ *Ibid.*

⁴ An airbed is an inflatable mattress which is laid on the floor to form a bed.

⁵ “The sharing economy,” *Fast Company*, April 18, 2011.

it too. Both they and the guests had done it because they were in a sense forced to, and yet they'd all had a great experience. Clearly there was something new here: for hosts, a new way to make money that had literally been right under their noses, and for guests, a new way to travel that was in many ways better than hotels... They knew that once people tried staying in what is now called "an airbnb," they would also realize that this was the future.⁶

February 2008 – Blecharczyk joins Chesky and Gebbia as technical lead.

March 2008 ([Exhibit 2](#)) – South by Southwest Festival in Austin, Texas, with more than 150,000 attendees. AirBed&Breakfast advertises its service using local blogs and social media, yielding five listings and two actual bookings. One of the two bookers is Chesky, whose experience makes him realize the awkwardness of the face-to-face payment process. The result: a PayPal payment feature is added to the site.

August 2008 ([Exhibit 3](#)) – AirBed&Breakfast launches during the Democratic National Convention in Denver.⁷ The convention attracts 80,000 attendees – almost triple Denver's 28,000 hotel rooms. Reviews of the site point out that its prices tend to be lower than hotel rates:

In general, the prices are usually much cheaper (rates in San Francisco, for instance, range from \$10 to \$175 a night, with the median being \$85). And you get to stay with a friendly local who can steer you to restaurants and stores you probably would never find otherwise.⁸

At the Denver convention, AirBed&Breakfast attracts 800 listings yielding 80 bookings.⁹ The traffic to the Airbnb site around the time of the convention is shown in [Exhibit 4](#).

October 2008 – Running out of cash, the cofounders design the Obama O's and Cap'n McCain's cereal boxes (playing on the "breakfast" theme). The first 100 cereal boxes are mailed to reporters. They are featured on Good Morning America and CNN and are sold for \$40 a box, raising about \$30,000 – more than the actual AirBed&Breakfast service.

2008: Throughout 2008, the cofounders seek funding without any success. In addition to the Global Financial Crisis that hit the funding market hard, investors thought the idea was "crazy," the team, led by two designers, didn't have enough technology leadership, and the travel market was saturated. One investor said "we love everything except you and your idea" and another said "the economy is so bad we won't even invest in good companies. Do you think we're going to invest in air bed and breakfast?"¹⁰

Year-End 2008: The cofounders consider whether it's time to quit. They decide to give their startup three more months and then quit if it doesn't get more traction. Blecharczyk elaborates:

We were having a conversation about 'when do you know it's time to quit?' Because we've been without a job for the entire year, not making any money. Of course, we still had to pay our rent. We had expenses. We were broke... We had credit card debt at that point, and investors were

⁶ "The Airbnbs." Paul Graham, YC Blog, December 10, 2020.

⁷ This was the Democratic party convention prior to the November 2008 election in which Barack Obama was elected president.

⁸ "AirBed and Breakfast takes pad crashing to a whole new level," *TechCrunch*, August 11, 2008.

⁹ L. Gallagher, *The Airbnb Story*, Houghton Mifflin Harcourt, 2017.

¹⁰ Brian Chesky in "This Week in Startups," May 2023.

uninterested. And so we had this conversation, the three of us, ‘When do you know it’s time to quit?’ And we had a realization over the course of that conversation, which is that although over the last year we’ve been working really hard, we’ve actually been a little bit distracted, too. We had side projects going on, and actually at the time I was in Boston, they were in San Francisco, and so we weren’t together as a team, completely focused. So we made a commitment to each other. We said: ‘let’s give it three more months where we’ll live together and we’ll not have anything else in our lives except for this. We’ll work six to seven days a week and we’ll be very regimented, and after three months, if we’re not going to be in a materially better place, then we’ll quit.’¹¹

January 2009 – President Obama’s inauguration, attracting 1.8 million people to the Washington, D.C. area. The company has 1,000 listings and 150 bookings.

January 2009 – The cofounders enter the Y-Combinator program, receiving \$20,000 in seed funding to work at the company full time. The website is renamed Airbnb.com and redesigned. Airbnb then seeks venture capital funding with assistance from Y-Combinator’s Paul Graham, but is still unsuccessful. Union Square Ventures’ Fred Wilson explains his reluctance to invest:

We couldn’t wrap our heads around air mattresses on the living room floors as the next hotel room and did not chase the deal. Others saw the amazing team that we saw, funded them, and the rest is history. Airbnb is well on its way to building the “eBay of spaces.” I’m pretty sure it will be a billion dollar business in time. We made the classic mistake that all investors make. We focused too much on what they were doing at the time and not enough on what they could do, would do, and did do.¹²

February-June 2009 – Paul Graham explains how the cofounders reached “ramen profitability”:

Airbnb’s goal during Y-Combinator was to reach what we call ramen profitability, which means making enough money that the company can pay the founders’ living expenses, if they live on ramen noodles. Ramen profitability is not, obviously, the end goal of any startup, but it’s the most important threshold on the way, because this is the point where you’re airborne. This is the point where you no longer need investors’ permission to continue existing. For the Airbnbs, ramen profitability was \$4,000 a month: \$3,500 for rent, and \$500 for food. They taped this goal to the mirror in the bathroom of their apartment.

The way to get growth started in something like Airbnb is to focus on the hottest subset of the market. If you can get growth started there, it will spread to the rest. When I asked the Airbnbs where there was most demand, they knew from searches: New York City. So they focused on New York. They went there in person to visit their hosts and help them make their listings more attractive.¹³

New York City (NYC) has 40 listed apartments that convert to 15 monthly rentals. Chesky and Gebbia travel to NYC and find that a key pain point for hosts is taking and uploading photos of their properties:

The photos were really bad. People were using camera phones and taking Craigslist-quality pictures. Surprise! No one was booking because you couldn’t see what you were paying for.¹⁴

¹¹ “10 years of community,” *Airbnb*, August 10, 2018.

¹² “Airbnb,” *AVC*, March 16, 2011.

¹³ “The Airbnbs,” Paul Graham, *YC Blog*, December 10, 2020.

¹⁴ “Airbnb,” *Fast Company*, February 7, 2012.

To address the problem, Chesky and Gebbia borrow and then rent a high-resolution camera. They visit hosts door to door and take high-quality photos of their properties, discovering that they increase conversion from listings to rentals by 2.5X. By month's end, NYC revenues double. Chesky explains:

Do things that don't scale. We start with the perfect experience and then work backward. That's how we're going to continue to be successful.¹⁵

Gebbia adds:

And I'd show the photos in the back of the camera... and these hosts were like "Oh my god, my apartment looks amazing, I can't believe it, do you want to stay for some tea or coffee?" And so, I'd end up spending a few hours sometimes in their homes just talking with them. And this is where instinctively we went into design research mode, which is going out and talking to the people you're designing for [so] you can understand the world from their point of view to inform your point of view. I call this "enlightened empathy," which is seeing the world so closely in the shoes of the person that you are creating for, that you can see the world the way they see it. Now you bring these insights back and combine them with your own design point of view to create something new.¹⁶

And the things that "don't scale" early on, scale up later:

... Rinse and repeat. When we fixed the product in New York, it [later] solved our problems in Paris, London, Vancouver, and Miami.¹⁷

April 2009 – Airbnb raises a seed round of \$600,000 led by Sequoia Capital. Sequoia had been studying the vacation rental market and was looking to invest in this area. According to Sequoia's Alfred Lin, Airbnb was

one of the rare global network effects companies in commerce, and that was something that we got our minds around as a proprietary defensible advantage. And one of the things that we look for in a company that we invest in is some form of proprietary advantage that allows you to win. That could be a technology advantages, that could be network effects, that could be a disruptive business model, and [Airbnb] had both a disruptive business model and network effects. And it brings the technology to bear on a service like bed and breakfast which lots more people than you might think would use.¹⁸

Reid Hoffman's¹⁹ first investment as a venture capitalist was in Airbnb, but he failed to invest in this round. Hoffman explains how he was first pitched on Airbnb:

"Oh, I got this really exciting investment and I think it's really, really, really interesting and I'm looking to make an investment in it myself. It's Airbnb." And I go like, what's that? "Well, it's renting couches, you know, everyone has couches and now every space opens up because you can rent a couch." That was essentially how I was pitched on it. I was like okay, if it's essentially a couch thing, don't talk to me about it. And the reason was couches have all of the downsides and

¹⁵ *Ibid.*

¹⁶ "How I Built It" with Guy Raz, Airbnb: Joe Gebbia, *NPR*, August 28, 2017.

¹⁷ "Airbnb," *Fast Company*, February 7, 2012.

¹⁸ Fireside chat with Alfred Lin and Bambi Francisco, *Post-Seed Conference*, San Francisco, December 5, 2015.

¹⁹ Reid Hoffman is a famous American entrepreneur and venture capitalist. He cofounded some of the early social networks, was an executive at PayPal and cofounded LinkedIn. Hoffman is a partner at venture capital firm Greylock Partners.

none of the upsides of creating a travel space marketplace. The downsides naturally include: you've got connectivity with kind of a stranger (and by the way, there's an upside to that as well), you've got the uncertainty about the environment that you're going into... When it's a room, or once we are renting an apartment, the room you have is your own room, you have your own bed etc., it's like your own space, you know versus the couches are out in some other kind of space. It's always the low end. It's got to be the absolute cheapest thing like, maybe the next cheapest is you can have a sleeping bag in my yard. You have all of those challenges and none of the potential upsides like I'd much rather rent your apartment on the Seine than even that really gorgeous [Four Seasons] hotel, because of the location of the apartment and the view when you look out the window, and even if it's not as well appointed as the Four Seasons, oh my god, it's an apartment on the Seine. And that was part of the upside of Airbnb but none of that was explained to me.²⁰

Summer 2010 – Without publicity, Airbnb initiates a free professional photography service. It contracts with 20 photographers to take verified high-quality photos of hosts' properties and post them to their listings. Airbnb pays photographers \$50 per listing plus up to \$15 for local travel.²¹

November 2010 – Airbnb raises \$7.2 million Series A funding from Greylock Partners and Sequoia Capital. Reid Hoffman describes how his Airbnb investment was received at Greylock:

Greylock has 55 years of investing history, and when it looks back it realizes that its best investments are from mixed votes, from some partners going: "this is absolutely critical and important" and other partners going "I think this is a real serious mistake, this is an investing mistake, this is gonna be a drag on the portfolio." I brought the investment in and this investment had that exact characteristic. David Sze, who was my most helpful board member at LinkedIn and who was my primary recruit into Greylock, looks at me and says: "look, every venture capitalist has to have a deal that they can fail on. Airbnb can be yours." And I was like, okay, boy, here's an experienced VC, my very first deal on the door, oops, right? But I had enough conviction and it was like "look, I think I'm right, I think David's wrong" and then other partners were like "nope, I think this is actually a pretty interesting investment, I think you should do it." So we had that kind of mixed thing so I got the license to go and put a term sheet down.²²

February 2011 – Airbnb announces a million cumulative bookings since launch.

March 2011 – Wimdu, a German Airbnb clone founded by the Samwer brothers, launches. The Samwer brothers had previously cofounded Alando, a German-language eBay clone that they sold to eBay for £35 million within three months of launch, and commissioned CityDeal, a European-based Groupon clone that they sold to Groupon six months after launch for \$267 million. The brothers had repeated that playbook multiple times, cloning successful American Internet companies in other countries and then selling the clones to the American originals.²³

Chesky describes his reaction:

²⁰ Reid Hoffman, Airbnb Reflections, Greylock Partners, December 10, 2020. Slightly edited for clarity.

²¹ Source: *Quora*.

²² Reid Hoffman, Airbnb Reflections, Greylock Partners, December 10, 2020. Slightly edited for clarity.

²³ Following the sale of Alando, the Samwer brothers developed these clones through Rocket Internet, a venture capital firm and incubator. A number of Rocket Internet companies later grew as independent companies (e.g., Zalando, which started as a clone of online shoe seller Zappos).

And so you can imagine how we felt – and I think at that point we had done the round with Greylock for \$7 million and I also get a news report that this guy Oliver Samwer has raised \$400 million,²⁴ he has hired 400 people in like 30 days, set up 40 offices. I didn't know it was kind of possible – it took Joe and I like 2 years to hire 40 people and he got 400 people in 30 days out of nowhere, and he was going to create this company, and this company was going to be a clone of our company, and he made no mistake about saying that we were an American company and he was going to out-localize us. At that point, we really started investigating, well, do we think this strategy is going to work. And it became clear that there was one thing they did that worked very well, and that one thing was that they actually had local people and local offices on the ground. We tested it ourselves and we realized, oh crap – that actually works!

... I end up going to Berlin in 2011, met with Samwer and... we realized that we had a decision to make, and the decision was [between] Plan A and what we called Plan B. And Plan A was we retain this global travel network by acquiring Wimdu. Because we visited them and they clearly had a ton of traction. Or, we had Plan B. The problem is, we didn't know what Plan B was yet. And, we're like, OK, we have to come up with plan B. And, even that night, we decided to do Plan B. We decided to do plan B even though we had no Plan B... We don't know what Plan B is, but I'd rather pursue Plan B and maybe win, but maybe lose, than inherit this other company that we thought was not mission-based... because it wouldn't be Airbnb, and I wouldn't want to come to work for that company, be part of that company... I'd rather lose and keep our soul than win without it. And so we said now we're basically, frankly fighting for our life to retain this global network. And I thought we'd win... In wars, missionaries typically beat mercenaries, and we knew like we did it for the mission, we were willing to do it for the long term. I remember even Paul Graham telling me... if you're in a race, they can sprint with you but they don't want to do the marathon. And I think the community ultimately was the difference. I think we provide a much better product but the community was that magic, the bottle that they were never able to crack. Our community loved the experience, our employees loved working there, everything was mission-driven and we really agonized over every step of the [customer] experience, and people tried them, but it wasn't as good an experience as ours...²⁵

May-June 2011 – By May 2011, Airbnb raised less than \$8 million in total. Airbnb goes into a massive funding round to finance growth, raising \$115 million at a \$1.3 billion valuation and aggressively moving into Germany and then the rest of Europe. Airbnb acquires Accoleo, a small German Airbnb clone, using its operations as a beachhead and opening offices in Hamburg and later in Berlin.

At that point, Airbnb became a truly global travel network. Chesky explains:

The other thing we did... that was incredibly important that they were doing really well which is we opened local offices... and we really hired local teams, and a lot of them came from the local community. And it wasn't until we did that that our business became a primarily international business. And that was key. It was like the product and the community – but also with the local culture.²⁶

²⁴ In reality, Wimdu raised \$90 million.

²⁵ Brian Chesky in TechCrunch video interview, October 11, 2013.

²⁶ *Ibid.*

July 2011 – A host blogs that she had rented her apartment out on Airbnb and it was trashed, with many of her valuables stolen. TechCrunch reports the incident under the headline “The moment of truth for Airbnb as user’s home is utterly trashed.”

October 2011 – Airbnb officially launches its international professional photography service with 1,000 photographers and 13,000 previously verified properties. A host may sign up on the Airbnb site to schedule a photographer who would take high-quality photos of the property for free. Airbnb would then approve and post the verified photos to the listing. By January 2012, Airbnb photographers take more than 400,000 photos. (In June 2017, Airbnb started charging hosts for its professional photography service).

Throughout the five years it was in business, Airbnb charged guests about 10% of the amount they paid with the host paying 3%. The host fees basically covered Airbnb’s variable costs, as Airbnb took care of payments and customer service.

Typical Airbnb rentals were longer than hotel stays and the average daily rate was lower. In NYC, for example, the average Airbnb stay was for 6.4 days at \$180 a day.²⁷ Among the reasons they preferred Airbnb to a hotel, guests cited lower prices, convenient locations, the variety of interesting spaces and the desire to “live like a local”.²⁸

In the second half of 2011, Airbnb embarked on aggressive international expansion, opening offices in eight countries, launching customer service operations in 15 languages and supporting 17 currencies. Three quarters of all Airbnb reservations in 2011 were international, with either the guest, the host, or both located outside the United States.

Exhibit 5 shows the growth of new Airbnb users (guests + hosts) by month.

²⁷ Sources: Airbnb, AirDNA.

²⁸ “What I learned from developing branding for Airbnb, Dropbox and Thumbtack,” *First Round Review*.

Exhibit 1: AirBed&Breakfast's original website, October 2007.

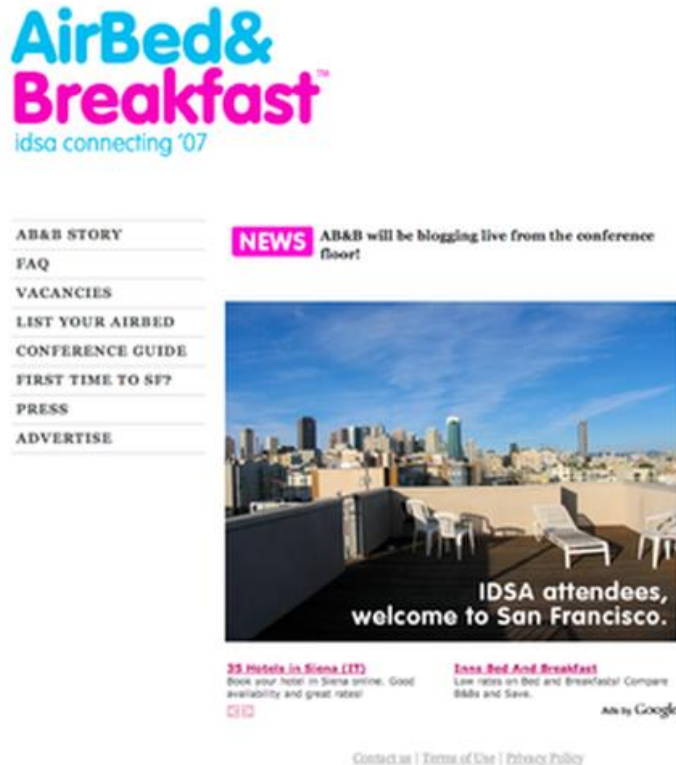


Exhibit 2: The AirBed&Breakfast homepage, March 2008.

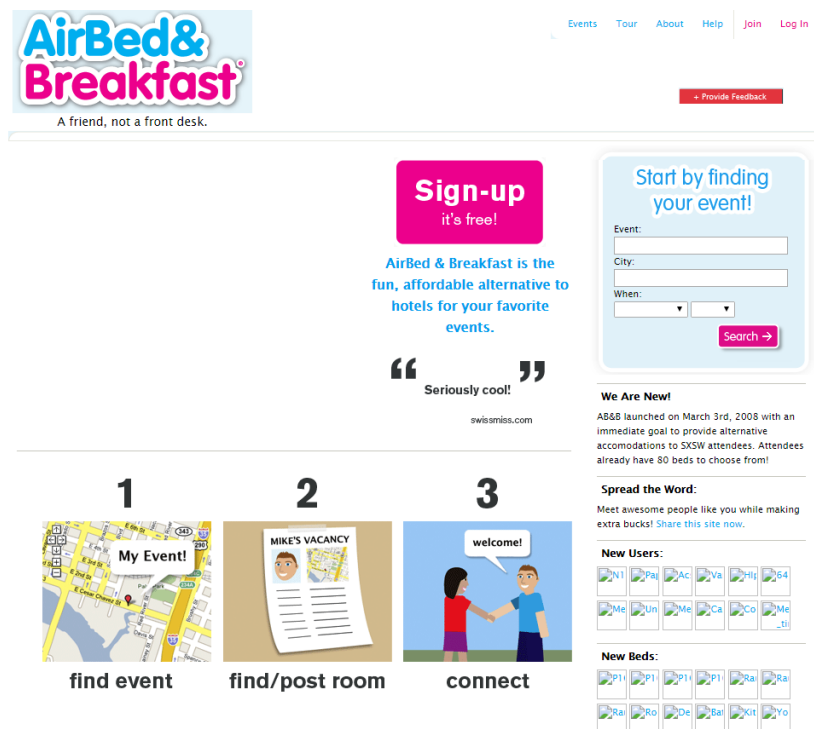


Exhibit 3: The AirBed&Breakfast homepage, August 2008.

AirBed & Breakfast
Forget hotels.

Sign Up / Sign In | Post a Room

san francisco

Check in: 08/18/2008 | Check out: 08/20/2008 | Guests: 1 | Search

Sorting Options

1-10 out of 16 listings.

"tikitastic"	\$10
"Cute!"	\$25
"Simple"	\$50
"AwesomeRoom"	\$50
"happy"	\$50
"Victorian"	\$50
"Get Fit!"	\$80
"Sunny"	\$85
"Cute"	\$90
"Modern"	\$99

1 2 Next



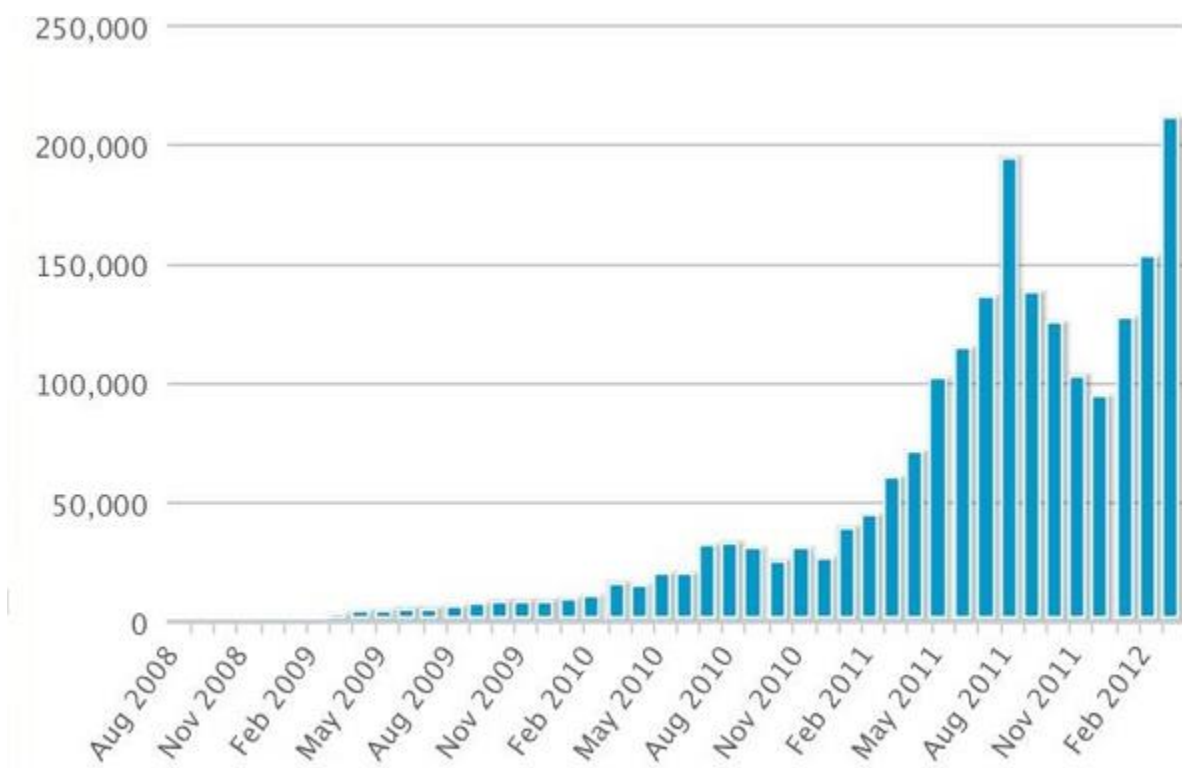
The map shows San Francisco with several pink location pins. A callout box for the 'Modern - \$99' listing is open, showing a profile picture of a man. The map includes labels for various districts like Marina District, Presidio, and Golden Gate Park, as well as landmarks like the Golden Gate Bridge and San Francisco Bay.

Exhibit 4: Traffic to the Airbnb site, June 17 to October 16, 2008.



Source: Joe Gebbia, *The Airbnb Story*, July 3, 2017.

Exhibit 5: New Airbnb users by month, 2008 through early 2012.



Source: RJ Metrics.