

Keynote Address with Chip Conley

BY JULIE L. MELANDER, CRE

Speaker:

Chip Conley

Head of Global Hospitality & Strategy, Airbnb

Moderator:

Elizabeth Youngblood Lambird

Executive Director, Stanford SPIRE

“DRAMATIC DISRUPTION IN THE HOSPITALITY business” is what Chip Conley, Head of Global Hospitality & Strategy described as the cause and the effect of his company, Airbnb, when he spoke to the **Global Cities in an Era of Change** audience at Stanford University on March 31, 2016. This forward thinking symposium was the collaboration of The Counselors of Real Estate, Stanford SPIRE, Stanford’s real estate alumni association, and RICS, a London-based professional organization of 118,000 property professionals.

Conley delivered the keynote address and talked about how Airbnb is changing the way we travel in the 21st Century. He shared what he sees as the three elements of a successful disruptive innovation and how Airbnb is shaking up the hospitality industry and changing the paradigm of travel — how “we do it” and what it means to travel.

Starting out in business in the early 1980s, Conley was a land broker in the orange groves of what is now Silicon Valley, and he spent a few years working for a real estate developer before he decided the hotel business is where he would be the most successful. In 1987, at age 26, he bought his first hotel in the Tenderloin district of San Francisco (mostly renting rooms by the hour at the time), and he built that investment into the second largest boutique hospitality chain in the nation with 52 boutique hotels, named Joie de Vivre. Twenty-four years after that first acquisition, he sold a majority interest in the company to John Pritzker of the Hyatt Hotels. Conley’s very last hotel project was the Epiphany

About the Author



Julie L. Melander, CRE, has been a member of The Counselors of Real Estate® since 1999. Her real estate career has been in the financial services industry, serving clients ranging from commercial and investment banks to private developers and public agencies with investment advisory services on such matters as new development feasibility and capital structure to distressed debt acquisition and resolution. She has an

MBA in finance from the University of Chicago, a bachelor’s degree in Finance from Indiana University and is a licensed real estate broker

Hotel in downtown Palo Alto which he sold to Larry Ellison for *three times the cost at completion*. He retired at that point.

But three years ago, he received a call from Brian Chesky, co-founder of Airbnb, who asked him to be his mentor and, “take their little millennial tech company and turn it into a mainstream hospitality giant.” He did a few weeks of research and agreed to join the team of smart young professionals working at Airbnb — who understood technology but not the least about hospitality — for 15 hours a week. Within weeks, he was asking Brian, “Did you think I said 15 hours a day?” He was a 52-year old “intern” in a tech company — just like the Robert DeNiro movie *The Intern*.

Airbnb is a dramatic “disruption” in the hospitality business. Conley spoke of creative disruption throughout his talk. Disruption leads to innovation. And innovation does not typically arrive without foreshadowing. In hospitality, Holiday Inn was a big disruptor with industry-changing innovation in 1953. The precursor was the Interstate Highway system, built after WWII by Eisenhower to connect the country. People wanted to go and move and see new things. They took to their cars and hit the highway. The hospitality industry at that time was small little properties with a wide variety of quality standards.

Keynote Address with Chip Conley

The Holiday Inn chain delivered a standardized predictable place to stay across the country.

In the 1970s, timeshares were the disruptor in hospitality, providing travelers with participation in the real estate. By the 1970s, the public had become aware that real estate could be valuable. They were interested in how they could make some money in a real estate deal while enjoying a vacation. This was the foreshadowing of the timeshare craze.

Then in the 1990s, the emergence of boutique hotels came from the traveler's desire for an "experience" — something that connected the traveler to the place and the neighborhood — getting away from the extremely reliable, cookie-cutter hospitality product of prior eras. A book titled *The Experience Economy* summarized what the traveler wanted and was a foreshadowing of the home-sharing phenomenon. Vacation Rentals By Owner (VRBO) came on the stage in 1995, introducing the disruptive idea of sharing your home with strangers. The idea of "traveling like a local" appealed to many travelers. Craigslist also appeared in 1995 with similar ideas. And Europeans were "home swapping" as early as the mid-1950s. So, innovation and disruption is often signaled by a foreshadowing. It's a lot easier to see it looking backward, but the key is to be able to see it in real time and act on it.

The second element of successful disruption is that it recognizes a human need that isn't being addressed. In hospitality, it's been the need for clean, reliable predictable accommodations, then it was the need for "an experience" which the boutique hotel satisfied. Now the need Airbnb is filling is the need to "belong somewhere" and have it be affordable. Airbnb is in 34,000 cities in 191 countries.

Airbnb took these ideas of "traveling local" and finding something unique and created a better marketplace. And it really started with a couple of **air mattresses**. Brian Chesky and co-founder, Joe Gebbia, were graduates of Rhode Island School of Design and just starting out on their careers in San Francisco. The rent was quite steep on their San Francisco loft apartment, so they came up with the idea to offer short-term living quarters to attendees of the Industrial Design Conference in October 2007. It was accommodations on an air mattress on the floor of their loft, cereal breakfast, and a unique business networking opportunity for attendees unable to find

conventional rooms in a saturated marketplace. They advertised as Air Bed & Breakfast, which became *AirBedandBreakfast.com*, which was shortened to *Airbnb.com*. By 2008, they brought on a third co-founder, Nathan Blecharzyk, and focused on high-profile events where alternative lodging was scarce and expanded the offering to other young friends in the marketplace. They took a business plan based on how many air mattresses they calculated were available and grew it to now three million homes available to book across 191 countries.

Successful disruption thrives on feedback: 75 percent of Airbnb guests provide feedback. That feedback gives Conley information to teach his thousands of hosts "hospitality" which he defined as "a generosity of spirit from the heart." This compares to about 10 percent feedback for a typical hotel company. With constant feedback, hosts are especially motivated to provide the best hospitality they can.

The third element of successful disruption is that, over time, the "establishment" accepts the innovation. Intercontinental Hotels Group bought the boutique Kimpton Hotels. A Hyatt affiliate owns Joie de Vivre now. Starwood developed the W Hotels. Now the big corporate chains are moving into the home-sharing arena. Accor owns Oasis Collections, an international home rental business. Hyatt bought the high-end home-share company called "onefinestay." They are all calling Conley, talking collaboration and recognizing that home-sharing is a long-term trend. Even Morgan Stanley now has a corporate account with Airbnb. There is a trend to a *global nomad worker* — someone who can and does go anywhere in the world to work. So these travelers want to "belong" for their time there.

Corporate acceptance came after it was established that Airbnb wasn't a competitor to the top chains. Airbnb is meeting the needs of a new marketplace — those who wouldn't travel or who would stay with friends and family and those who have an extended stay need that wasn't being met.

An important part of Conley's job is also working with landlords and communities to smooth this "disruption." Equity Residential, the country's largest residential landlord, is now exploring partnering with Airbnb to come up with rules for hosts to allow this business model in their communities.

Keynote Address with Chip Conley

Conley shared with the audience more details on his approach to the business as Global Head of Hospitality & Strategy. One of his top priorities is to make sure Airbnb is a responsible participant in the hospitality industry. Airbnb works with hosts to ensure occupancy taxes are paid to relevant governing bodies and that hosts are aware of and abide by all regulations. But as he said, “Orville Wright did not have a pilot’s license. We know that. Henry Ford didn’t actually have a driver’s license.” Airbnb has had to think about and participate in the discussion of how they want to see the home-sharing business regulated.

In addition, Conley wants Airbnb to collaborate with the industry. Airbnb shares information with industry data compilers like STR, and they are participating with marketing of locations which benefit tourism. STR took a look at the Airbnb data and studied how Airbnb was impacting the hotel industry in Manhattan. They concluded that it was having almost zero impact — 31 percent of Airbnb guests surveyed worldwide say they either would not

have come or would not have stayed as long in the city without Airbnb. They are meeting a need that wasn’t being met — longer term, more affordable accommodations.

And of course, security is of utmost importance. Airbnb has over 250 people in their Trust and Safety Division. George Tenet, the head of the CIA under George Bush, is an advisor to the company. The division’s charge is to determine when people should not be a host or a guest and act on that. They have also obtained and carry full liability insurance and \$1 million of property insurance per stay.

Airbnb’s ultimate goal is to be the Super Brand of Travel. With constant feedback from guests, Airbnb will personalize and customize the traveler’s experience with lists of possible accommodations, restaurants, activities, personal tour guides, everything to make the travel experience all that the guest needs and desires. ■