

ON BUSINESS

Airbnb Defied the Odds of Startup Success. How Will It Survive a Pandemic?

The creators of the online lodging giant had the grit a new company needs to change an established industry. Now they face another potential reckoning. “You’re only focused on the moment.”



By John D. Stoll

I’m a sucker for good stories about the founding of companies. Yvon Chouinard started apparel maker Patagonia in a chicken coop; James Dyson went through 5,000 prototypes on his way to inventing a bagless vacuum cleaner; Steve Ellis opened Chipotle burrito shops simply to earn enough money to start a gourmet restaurant (he never got that far). Airbnb Inc.’s story takes the cake. In 2008, a couple entrepreneurial types living on Ramen noodles in San Francisco cooked up an online home-sharing scheme. They recruited a computer scientist, funded their idea in the early days by maxing out credit cards and selling politically-themed cereal boxes, and held on until their company shook up the entire lodging industry.

More than 600,000 small businesses were created in Airbnb’s inaugural year, according to the U.S. Bureau

of Labor Statistics. Half of them were out of business within five years. Only one-third were still standing at the end of 2019.

“There’s this crazy idealism that founders have,” Brian Chesky, one of those Airbnb founders and the company’s chief executive, told me this week in a video chat. “They’ve learned to cope with a lot of adversity and have a lot of resilience.” He notes Airbnb launched four different times before success. When times get tough, entrepreneurs like him look to the “metaphorical mountaintop.”

The coronavirus crisis has companies like Mr. Chesky’s wondering whether the menacing clouds shrouding that mountaintop will ever lift. And, despite the grit and creativity it took for someone to found this disruptive company, skeptics worry Airbnb may not be around long enough to reach it. Unlike internet-based companies that manage the crisis by delivering streamed movies, toilet paper, videoconferencing services or burritos to millions of U.S. homes, Airbnb only works if people aren’t home. Mr. Chesky represents a cluster of founders—including Rent the Runway Inc.’s Jenn Hyman and Lyft Inc.’s John Zimmer—who enjoyed a decade of sky-high valuations for tech-based startups but now face a potential reckoning. We lionize founders who defy odds. Jeff Bezos’ legend was built as Amazon.com Inc. shook up every industry under the sun. Elon Musk earned his stripes entering fields, aerospace and automotive, with towering barriers to entry. To become heroes, however, Mr. Bezos needed to survive a late 1990s dot-com bust that claimed thousands of hot internet startups. Mr. Musk endured a year of “hell” of trying to meet Tesla Inc.’s ambitious production goals in 2018. The jury is out if Mr. Chesky and his co-founders are headed for Bezos-like heights, or destined to cede control to other managers much the way WeWork’s Adam Neumann and Uber Technologies Inc.’s Travis Kalanick did. Over the past month Airbnb has suspended \$800 million in marketing spending, frozen hiring and worked to address a drop in confidence among the “hosts” who rent out their homes on the website.

“In the crisis,” Mr. Chesky said, “you’re only focused on this moment, and all I try to do is just get to next week, and you say ‘Well, I don’t need to worry about the next three months, I need to worry about this week and these are the five things I need to do every single day.’ I have a daily scorecard, not an annual scorecard.”

Mr. Chesky is meeting with his co-founders, Joe

Gebbia and Nate Blecharczyk, every night via phone or Zoom. Airbnb's board convenes every Sunday. The executive team has a daily 9:30 a.m. meeting. Agenda items include creating hundreds of millions in grants to prop up the finances of hosts who have seen reservations dry up over the past two months.

Mr. Chesky understands that Airbnb can only tread water so long. Cash will be the difference between survival and drowning. "Every single day I'm going to find a little bit of money, I'm going to save a little money, I'm going to generate a little bit of money."

The founders have practice with day-by-day liquidity management. At Airbnb's earliest stage, they kept a binder full of credit cards that funded the business. Mr. Chesky reflected on how they would carefully manage how they used them so that their credit scores wouldn't be damaged. Eventually, the company became too big, and they needed to find venture backers.

It was the cereal boxes, not the business model, that won the heart of one of its most important backers, Paul Graham, during the financial crisis. Then known as AirBed and Breakfast, the company had sold boxes of "Obama O's" and "Cap'n McCain's," brands they'd made up to gin up interest in its home-sharing company during the 2008 presidential campaign. "We need founders who've got survivor instinct and won't die," Mr. Chesky remembers Mr. Graham said. "We want cockroaches, and you are cockroaches, you will not die. You're selling cereal boxes for God's sake."

The survivor days were in the rearview earlier this year as Airbnb was nearing a long-anticipated public listing. A market capitalization in excess of \$40 billion was expected. Employees, ex-employees and investors eagerly awaited the IPO to cash in by cashing out shares. "It's not a goal for me, it's more of a responsibility," he said. "We were working on an IPO and I was literally drafting the S1 last month when this hit."

That window closed, but the need for cash didn't. In recent weeks, the company raised \$2 billion in new funding to help Airbnb and its hosts survive. "The longer the storm is, the more money you want," he said. "If the storm goes on a couple years, I'll be happy I had the money." The company said in March it had a \$4 billion capital cushion, before the fundraising, but it is hemorrhaging money and trying to keep 6,000 employees on the payroll. Mr. Chesky said 30 investors expressed interest in providing funding. He said that is

evidence there are plenty of believers out there among the deep-pocketed crowd. Fewer investors actually lent to the company. My colleagues have reported in recent weeks, however, that this round of fundraising wasn't a bed of roses. Its valuation is much smaller than it was, falling to \$18 billion, according to the Journal's reporting. The first round of \$1 billion came at a steep price, with an interest rate north of 10%, and the second \$1 billion came with a 7.5% plus Libor rate. Some investors declined to put in money after Airbnb said it would not replace Mr. Chesky. Mr. Chesky said he's enjoyed largely favorable press over the years and that while recent reports feel like "a little bit of a punch," he's confident investors and his board back him. The most important support he needs to rebuild, he maintained, comes from the thousands of hosts that keep his firm in business.

"The best redemption is success over time," he said. Mr. Chesky can only hope he can find enough cash to buy the weeks and months he'll need to reach the mountaintop. Write to John D. Stoll at john.stoll@wsj.com