



THALES S. TEIXEIRA
MORGAN BROWN

Airbnb, Etsy, Uber: Growing from One Thousand to One Million Customers

By 2016, online two-sided platforms (or marketplaces) were among the fastest-growing internet startups in existence. These marketplaces sought to match suppliers of assets for rent, physical products, or services with customers demanding them. Among the most notable two-sided platforms that quickly reached one million customers were Airbnb, Etsy, and Uber. They offered short-term property rentals, handcrafted goods, and car rides, respectively. As two-sided markets grew past the first thousand customers, network effects kicked in as more consumers bred more suppliers and vice versa. But how did these platforms ride the next level of growth, going from a thousand to a million customers? How did they change their acquisition tactics to reach this next level of scale?

Airbnb

Airbnb was a two-sided marketplace that sought to match people who owned real estate properties with people interested in renting short-term lodging. Founded in August 2008 and based in San Francisco, the company was privately owned. By 2009, it had more than a thousand customers and by mid-2011, more than a million. As of 2015, it had over 1.8 million listings in 34,000 cities worldwide.

Start with the Perfect Experience and Work Backward

In 2008, after hosting their first three guests in their San Francisco apartment, Joe Gebbia and Brian Chesky began receiving emails from people around the world requesting Airbnb in their own cities and in places they would like to visit. As Gebbia put it, “People told us what they wanted, so we set off to create it for them.”¹ Indeed, much of Airbnb’s growth could be attributed to the fact that people asked for the service Airbnb offered.

In order to learn what people wanted, the founders used their services. In the summer of 2009, as the company was searching for new office space, Chesky stayed exclusively in Airbnb listings in order to gather firsthand data about the service.² That same summer, Airbnb was not gaining much traction in New York, so Gebbia and Chesky flew out and booked spaces with 24 hosts to figure out what the problem was.

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It turned out that users were not doing a great job of presenting their listings. According to Gebbia, “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.” Their solution to this problem was low-tech but effective. According to Chesky, “A web startup would say, ‘Let’s send emails, teach [users] professional photography, and test them.’ We said, ‘Screw that.’”³

Instead, they rented a \$5,000 camera and went door to door, taking professional pictures of as many New York listings as possible. This approach led to two to three times as many bookings on New York listings,⁴ and by the end of the month Airbnb’s revenue in the city had doubled. As it turned out, what drove the rapid growth in New York also helped in Paris, London, Vancouver, and Miami.⁵

This led to the Airbnb photography program, which was officially launched in the summer of 2010. Hosts could automatically schedule a professional photographer to photograph their space.⁶ Though initially only 20 photographers were contracted by Airbnb, the service became an instant hit.⁷

Though this initiative was not cheap for the cash-strapped startup, the founders felt that the long-term benefits—improved listings were two-and-a-half times more likely to be booked—were well worth the cost. By 2012, there were more than 2,000 freelance photographers employed by Airbnb to photograph 13,000 listings on six continents (see **Exhibit 1**).⁸

As Chesky explained, “We start with the perfect experience and then work backward. That’s how we’re going to continue to be successful.”⁹ This approach extended beyond revamping listing photos. The founders looked at the characteristics that users valued and worked to engineer those into the entire site. With initial traction came new scrutiny from the media and the established hospitality industry.

Disrupting an Established Market

When Chesky and Gebbia first advertised their loft-turned-lodging space and home-cooked breakfast, they were promising more than simply a place to sleep. And as Airbnb grew, this remained a core component of the user experience. It was this ability to deliver more than just a place to sleep that allowed Airbnb to disrupt the established lodging market in such a major way. Yet in order to really compete with hotels, it had to do more than just offer a better experience.

A major advantage of Airbnb was that it tended to be substantially cheaper—generally 30% to 80% lower than hotels in the same location.¹⁰ A 2008 TechCrunch article on the startup, which was still called AirBed & Breakfast at the time, explained: “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.”¹¹ One commenter pointed out that there was one drawback to Airbnb:

If this ever becomes mainstream, the whole thing will come crashing down. The kind of people that *DO* rob, abuse, rape and murder people will start using these systems, and that will spread legitimate fear, corrupting the whole thing. Pray that this remains underground, that’s the only way it can survive.¹²

As of 2012, with more nights booked than Hilton and a greater valuation than Wyndham and Hyatt,¹³ there was no denying that Airbnb *had* gone mainstream. However, the company did not “come crashing down” thanks to a number of efforts to help overcome the inherent trust issues, even though Airbnb had its fair share of mishaps.

Professional photographs did a lot to inspire trust on one side of the equation—not only by helping to ensure that listings were not seen as very low-end accommodations, but also by simply verifying addresses. In addition to enhanced photos, in the summer of 2011, the company introduced Airbnb Social Connections, which leveraged users' social graphs via Facebook Connect.

When Social Connections was enabled, listings showed the profiles of mutual connections—friends who had stayed with the host or were friends with the host. Social Connections also allowed guests to search for hosts based on other characteristics, like school of graduation. The service was also quick to point out that the feature could be turned off with just a click, and that connections were only visible to those with whom the user was already connected. Regarding Social Connections, Chesky explained:

This has been one of our most requested features, particularly for people that want to have something in common with the people they are staying with. Social Connections helps you find places to stay with mutual friends, people from your school or university, or hosts that your friends stayed with and recommend.¹⁴

When the feature launched in 2011, Chesky claimed that there were already 16,516,967 connections among current Airbnb members—a number that continued to grow.¹⁵ It was important to the founders that Airbnb was not just a transactional website, but rather a place to engage with before (and after) booking travel accommodations.

Optimizing the Product for Engagement

In the summer of 2012, Airbnb redesigned the site around a new “Wish Lists” feature.

The Wish Lists offered the ability to save properties that users most liked. It had been possible on the Airbnb site for a couple of years, but the team wondered whether the function was optimized for maximum engagement. As with the listing photos, they began with a test and waited to see what happened. In this case, they decided to change the generic star icon to a heart as a means to tag preferred properties. It was the aspirational difference between a star and a heart that led Airbnb to develop Wish Lists. Wish Lists *were* functional, designed to facilitate sharing and collaboration, but they also spoke to the aspirational potential of the heart by helping position Airbnb listings as content. This gave users a reason to visit the site not only when they were looking to book a room, but when work was boring or the weather oppressive. Users could visit Wish Lists as a way to escape, browsing whimsical Airbnb-curated lists such as *It Yurts So Good*¹⁶ and *Castles*.¹⁷

Much to management's surprise, engagement increased by 30% as a result. Gebbia explained that the heart “showed us the potential for something bigger.”¹⁸ That potential was aspirational rather than utilitarian—something more than a simple accommodations search tool. “You have to have search,” Gebbia explained after the Wish Lists launch. “But what if you don't know where you want to go?”¹⁹

Four months later, 45% of Airbnb users were engaging with Wish Lists and over a million had been created.²⁰ Ultimately, like the site's use of Social Connections, Wish Lists helped the site to stand out among competitors. Rather than merely a place to search for accommodations, Wish Lists helped Airbnb to move toward a more engaging, social discovery form of planning travel.

Early Controversy

During the summer of 2012, Airbnb received \$112 million in a Series B funding round from Andreessen Horowitz, Digital Sky Technologies, General Catalyst Partners, Jeff Bezos, Ashton Kutcher—who also joined the company's advisory board—and CrunchFund. Then on June 22, just

three days after funding that valued Airbnb at over \$1 billion, an Airbnb user's home was ransacked.²¹ It was unclear whether the company actually refused to help the user, named EJ, as TechCrunch's Michael Arrington initially reported: "I spoke to Airbnb about EJ's situation. They won't reimburse her for damages, they say, and they do not insure against losses. They are helping police track down the person who did this, but their help ends there."²²

Airbnb was quick to email TechCrunch with the following corrections, which appeared as an update at the end of the article:

1. We have been assisting investigators and they have a suspect in custody.
2. We have been working with the host since the event and we have offered to assist her to the situation to [everyone's] satisfaction. If you read the blog post, you'll see that she points this out:

I would be remiss if I didn't pause here to emphasize that the customer service team at airbnb.com has been wonderful, giving this crime their full attention. They have called often, expressing empathy, support, and genuine concern for my welfare. They have offered to help me recover emotionally and financially, and are working with SFPD to track down these criminals. I do believe the folks at airbnb.com when they tell me this has never happened before in their short history, that this is a one-off case.

3. We actually have an entire safety FAQ for our users. You can find it here: <http://www.airbnb.com/safety>²³

The same day the TechCrunch article went live, Chesky also contributed a guest post on TechCrunch entitled, "On Safety: A Word from Airbnb," in which he asserted:

We are committed to improving upon our product with safety as the cornerstone of the Airbnb marketplace. We are fully committed to the vision that one day you will be able to travel to any city or town around the world, and with the click of a button, access local people and cultures safely and easily. We will work tirelessly alongside our community until that day is fully realized.²⁴

Among these improvements, Airbnb promised it was working on a number of initiatives, including doubling the customer support staff, creating a dedicated Trust & Safety department, creating a Host Education Center with safety tips for hosts, designing enhanced user-profile verification, facilitating richer communication between guests and hosts pre-booking, and offering insurance options to hosts, though the specifics of those insurance options were initially unclear.²⁵

In the month that followed EJ's initial post and Arrington's coverage of it, the media attention did not die down. In another blog post on July 28, EJ asserted:

On June 29 I posted my story, and June 30 thus marks the last day I heard from the customer service team regarding my situation. In fact, my appointed "liaison" from Airbnb stopped contacting me altogether just three days after I reported the crime, on June 25, for reasons that are unknown to me. I have heard nothing from her since. I blogged my story, and all these kind and supportive people just . . . disappeared.²⁶

She went on to claim that “one of the founders” (though not Brian Chesky) was the only person from Airbnb with whom she had been in contact, and that he had repeatedly requested she take down her initial blog post, limit access, shut down the blog entirely, or “update the blog with a ‘twist’ of ‘good news’” because of “the potentially negative impact it could have on his company’s growth and current round of funding.”²⁷

To make matters worse, on July 30, Paul Graham, founder of incubator Y Combinator, accused Arrington of lying about Airbnb’s unwillingness to pay for the host’s damages, referring to Arrington’s claims in a July 29 TechCrunch article as “bullshit.”²⁸ That day, Arrington responded in another TechCrunch post, referring to the whole situation as a “grossly mishandled PR crisis.”²⁹

The next day, Arrington highlighted the case of Troy, another Airbnb host who had had a similarly nightmarish experience two months prior—Troy’s valuables and identity were stolen, meth pipes were left strewn around his home, along with a random cat, and “thousands of dollars of bizarre damage” was done to his rented home.³⁰ In a comment from one of TechCrunch’s initial posts about the Airbnb situation, the host explained:

I had a similar problem with haphazard communication from people at Airbnb. I gave them multiple opportunities to make me a happy customer to which they did but then retracted their offer after [there] was miscommunication among the team. Sometimes days went by without hearing from anyone, while I was fear-stricken, totally disoriented, and angry. It was almost the most absurd customer service crisis one could ever imagine. But I am one squeaky wheel, and we eventually found an agreeable solution that I was generally pleased with.³¹

The user, who had used Airbnb as both a host and a guest since the incident, went on to accept most of the blame for the situation, explaining, much as EJ had, that he had had a gut feeling when renting to this particular guest that something was not right. Airbnb eventually gave Troy multiple free nights as restitution. His main criticism was that “[t]he reason they’re able to charge these high fees is [because] they lull people into a sense of false security. If they disclosed that, people would just use Craigslist”³²—a point that was also echoed by EJ in her initial post.

Then on August 1, Chesky issued an unconditional apology via the company blog, announcing Airbnb’s updated guarantee to cover up to \$50,000 in damages from vandalism or theft, a 24-hour helpline, something both EJ and Troy noted as lacking in their experiences, and several more improved security measures.³³ Then in May 2012, Airbnb partnered with Lloyds of London to expand its guarantee even further, covering every booking with its \$1 million Host Guarantee.

The company pointed out, however, that the guarantee was not a replacement for home or renter’s insurance, and it did not cover cash and securities, collectibles, rare artwork, jewelry, pets, or personal liability. Hosts that made claims under the Host Guarantee also had to “agree to cooperate with Airbnb and its insurers, including providing documentation of the loss they’re claiming and agreeing to inspection in the rare cases it may be necessary.”³⁴

Though the company’s initial handling of the situation was dubious, management learned from their mishandling of damages and liability, and as of 2016, the \$1 million Host Guarantee was an example of the company’s commitment to trust. By moving quickly to address these concerns, Airbnb was able to continue growing, despite these incidents, on an even sharper growth curve.

Etsy

Etsy was a two-sided e-commerce platform specialized in handmade or vintage items and supplies including art, photography, clothing, jewelry, food, and toys. Etsy generated revenue primarily from three revenue streams: (1) a marketplace revenue fee of 3.5% of sale and a listing fee per item, (2) seller services such as promoted listings, payment processing, and purchases of shipping labels, and (3) fees received from third-party payment processors. Etsy grew from a thousand to a million customers from approximately 2005 to late 2008.

Organic Marketing/Network Effects

A TechCrunch “Teardown” of Etsy pointed out that the company was spending “next to nothing” on customer acquisition (see **Exhibit 2**). This trend remained fairly consistent as the company continued to grow, as revealed in its Form S-1 filing. Since 2011, organic channels had represented 87% to 91% of Etsy’s traffic, while paid ads had been responsible for between 2% and 7% of traffic (see **Exhibit 3**). As the author explained: “To think of this another way, for every \$100 of sales that occurred on Etsy’s platform, Etsy spent \$1–\$2 on marketing. Some may say that this is still somewhat high given Etsy’s take rate is only approximately 10%, but if you think of Etsy’s GMS^a as equivalent to e-commerce revenue it is very low.”³⁵

Furthermore, direct and organic traffic was typically of much higher quality than paid traffic, and not only because it was free. How did Etsy drive such a high percentage of organic traffic?

Empowering Sellers

Etsy’s early support of artisans at craft fairs helped bring buyers and sellers to the fledgling marketplace. As the company grew, it continued to provide support for sellers, who marketed their wares and, in turn, marketed the Etsy platform to their own loyal customers. In 2013 CEO Chad Dickerson, who took over after founder Rob Kalin stepped down in 2011, attributed Etsy’s remarkable user growth, in part, to sellers promoting their own shops on social media.³⁶

As *Medium*’s Nicolo Ungari explained:

In reality, what Etsy did so well was enabling individuals to be entrepreneurial with their hobbies. They created a virtuous cycle through several touchpoints, all directed towards helping the seller first: the “Seller Handbook”³⁷ (on Etsy’s Blog), internal management tools to better process their orders and staying in touch with their customers, deep social media integrations . . . and sponsoring a great amount of third party apps to better manage your Etsy store and increase your revenues.³⁸

Etsy fostered an entire ecosystem of more than 150 third-party apps and tools³⁹ to empower and support sellers. As Ungari put it, “Etsy’s incredible organic channel is the entrepreneurial drive of its sellers.”⁴⁰

As Ezra Galston of TechCrunch explained in more general terms, “power sellers will be the primary drivers of scale on your platform. While the long-tail of one-off sellers does provide product breadth and liquidity, power sellers will drive both volume and organic referrals to their own native product stores.”⁴¹ Speaking more specifically to Etsy’s circumstances, Galston went on to point out:

^a Gross merchandise sales.

Although only 32 percent of sellers who had sold an item in 2011 were still actively selling in 2014, those who remained on the platform had developed into serious power sellers – on average \$13K per active seller from that cohort. And as power sellers become smarter and empowered by better tools, I expect their average earnings to continue increasing. This is one of the most fundamental signs of Etsy’s strength – the ability for its sellers to earn a living.⁴²

Along with engaged and motivated sellers came valuable repeat buyers – the other side of Etsy’s “loyal customers” coin (see **Exhibit 4**). Network effects also played a part. Etsy not only became the de facto destination for crafters to sell their goods online, but also became the place to buy hard-to-procure supplies for their original goods. Etsy acted as a marketplace for factory alternative goods such as rare zippers, embellishments, fabrics, and more. These suppliers could list and sell on Etsy outside of the factory-made goods exclusion and dramatically increased the amount and selection of craft-ready items that could be turned into finished goods by Etsy sellers. So, while many focused on the simple buyer-seller dynamic, the critical seller-supplier relationship further fueled growth and commerce on Etsy.

By late 2008, Etsy was growing faster than ever, racing past the one million customer mark.

Uber

Uber Technologies Inc. was an online two-sided transportation platform based in San Francisco. It developed, marketed, and operated the Uber mobile app, which allowed consumers with smartphones to submit a trip request that was then routed to independent drivers who used their own cars. Uber grew from a thousand to a million users from approximately 2010 to 2012, using a very deliberate city-by-city approach.

Intensely Local, City-by-City Expansion

The reason Uber expanded so quickly was because it acknowledged that growth was *not* one-size-fits-all. What worked for San Francisco might not be what was right for Chicago or New York, which was why it went city by city, with local efforts tailored to each new location.

Because of local politics, regulations, and interests in each city, Uber needed to adapt its launch plans to suit the unique characteristics of each new market. It was this ability to go into a market, understand who the suppliers were, who the special interests were, and account for those dynamics that made Uber successful immediately in new cities.

Founder Travis Kalanick explained:

We think that cities deserve to have another transportation alternative. It sounds crazy to have to say that but you have to do that because you have incumbent interests which are often trying to curtail innovation and curtail sort of transportation alternatives that might compete with their existing business. And, because of that, it requires us to take a very local approach to how we go after a city. We have launchers that go into [cities] . . . and turn nothing into something. I like to say they drop in with parachutes and machetes [and] get highly involved with the suppliers, people who own cars and run car services, and really just make sure that we can launch a service that is high quality from the start. Being local and speaking with local voice is important when you’re doing transportation and means you know what’s going on for the city.⁴³

Uber not only provided an overwhelmingly superior solution, but also leveraged some real-life situations to spur growth, which Kalanick referred to as “accelerants.” Though they were not necessarily *problems*, when present, these accelerants indicated a concentrated, temporary need for Uber’s services. These accelerants were:

1. Restaurants and Nightlife
2. Holidays and events
3. Weather
4. Sports ⁴⁴

Each of these factors made driving one’s own vehicle problematic at best and, in some cases, downright impossible, and cities in which they coexisted were especially receptive to Uber’s services (see **Exhibit 5**). Uber focused on executing in cities where those problems were near-constants to drive accelerated adoption. For example, in Chicago—a city with great nightlife, intense weather, and tons of sporting events—Uber’s initial viral growth was *double* what was typical.

Special events and holidays also provided an opportunity to showcase Uber’s model, and the company was able to deliver on key nights like New Year’s Eve in San Francisco—a city notorious for a lack of taxis—which drove word of mouth for the service. These events created intense demand and pressure to get new users to take their first Uber ride, driving spikes in new riders and total rides.

A city in which Uber saw unprecedented growth was Washington, DC. Kalanick explained: “We’re not really sure exactly why, but D.C. really, really likes our product a lot. That is reflected in our growth, and the sort of overall demand we’ve seen has been unprecedented.” He claimed that, month over month, growth was between 30% and 40%.

Huge Potential to Disrupt Transportation

A major factor contributing to Uber’s growth was its transformative potential. The company not only changed the way people hired cars, but was doing so in a way that stood to transform car ownership and transportation in general—by taking an established infrastructure and utilizing it in a very new way. Regarding this new transformative potential, Michael Wolfe, a preeminent tech blogger, explained:

- If you think of Uber as a **town car** company operating in a few cities, it is not big.
- If you think of Uber as **dominating** and even **growing** the town car market in dozens of cities, it gets bigger. (Data point: there are now more Uber black cars in San Francisco than there were ALL black cars before Uber started).
- If you think of Uber as **absorbing** the **taxi** markets, it gets pretty huge.
- If you think of Uber **bringing taxis** to parts of the world that did not have them before because of insufficient density, it gets even larger.
- If you think of Uber as a **personal logistics** service that can drive your kids to school and back, take you to work, pick up your parents at the airport, drive you to date night so you can get your drinks on, it gets very very large.

- If you think of Uber as **delivering** both people as well as **things** (packages, dry cleaning, groceries) it gets even larger.
- If you think of Uber as a **replacement** for your **car**, it gets even larger.
- If you mix in a **fleet** of **self-driving cars**, orchestrated by Uber, it grows again.
- If you think of Uber as a giant **supercomputer orchestrating** the delivery of millions of people and items all over the world (the **Cisco** of the **physical** world), you get what could be one of the largest companies in the world.⁴⁵

This disruptive potential was a reason that Uber garnered so much attention from investors. The economic, environmental, and everyday implications were huge. The startup was changing the way that people thought about transportation, making it less about everyone purchasing his or her own car and more about purchasing rides (like water or electricity) when needed.

Understanding this potential, Kalanick envisioned Uber as an “instant gratification” service—giving people “what they need, when they need it, whether that’s a ride or some other delivery.” As to what this other delivery might be, the possibilities were vast.⁴⁶ Kalanick explained, “What we’re doing right now is we’re in the experimentation phase where you sort of find some interesting ways to do promotions like Uber ice cream.” He continued, “It’s very straightforward for us to basically give [drivers] a phone with an app on it and say, ‘Look, when the thing is blinking, hit the screen and go to where the map tells you to go. And you don’t have to pick them up and take them anywhere, just give them ice cream.’”⁴⁷ In fact, by 2016, the company had experimented with on-demand Uber ice cream, roses for Valentine’s Day, barbecue in Texas, DeLorean rides in San Francisco, and UberCHOPPER helicopter rides to the Hamptons, in New York.

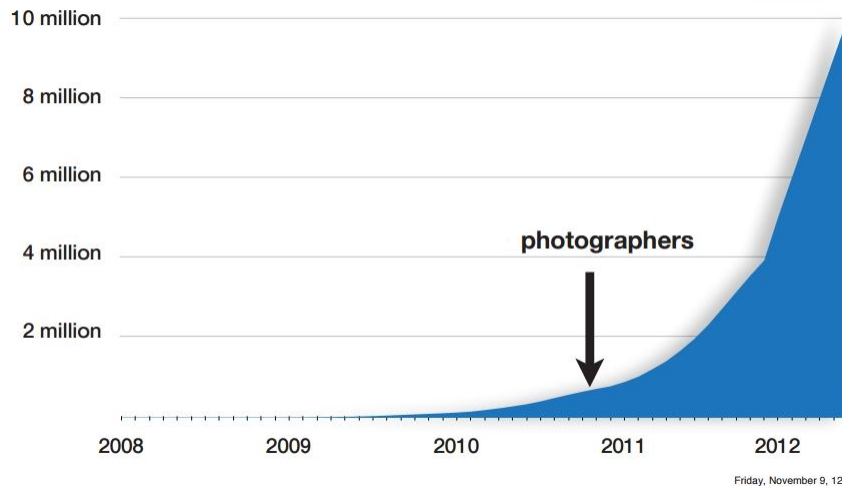
Though these were primarily marketing promotions, they were also ways to test the market for demand, and they hinted at the company’s potential direction for growth. Many interpreted Google Ventures’ \$258 million investment in Uber as an indication of possible future collaboration. In 2013, Google was in the process of making the self-driving car a reality. This meant the prospect of a fleet of driverless cars shuttling users to and from work, school, fun, errands, and home was no longer purely in the realm of science fiction.

By 2012, Uber had more than a million customers and was growing faster than ever. It was on track to become one of the fastest-growing two-sided platforms ever, a feat that helped the company reach a \$63 billion valuation by 2015.

Conclusion

Airbnb, Etsy, and Uber were clear outliers among online two-sided platforms in terms of their extraordinarily short time frame to reach the million customer mark.^b Being in very different industries, each startup had a distinct set of effective approaches to acquire their first million customers on the supply side and hundreds of thousands of others on the demand side. Yet, were there any commonalities across their approaches? Could any of the approaches used by these three companies at this stage of their life cycle work for other two-sided platforms or markets in very different industries?

^b For further reading on the growth strategies of other two-sided platforms, see Sean Ellis and Morgan Brown, *Hacking Growth*, (Crown Business, April 25, 2017).

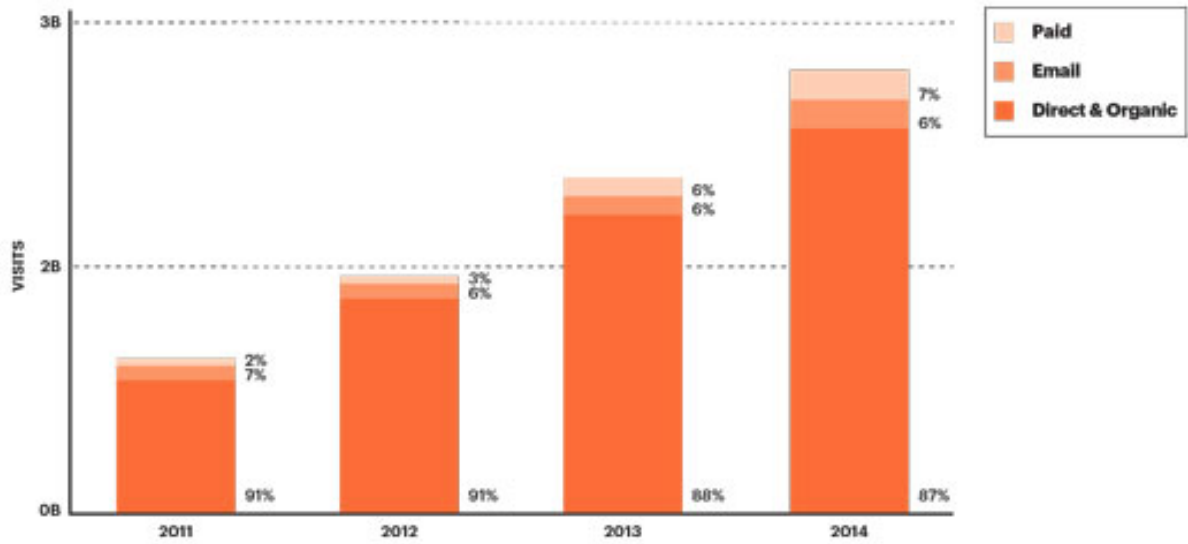
Exhibit 1 Airbnb Begins Using Photographers

Source: "Analytics Lessons Learned," <http://leananalyticsbook.com/wp-content/uploads/2013/01/Analytics-Lessons-Learned.pdf>.

Exhibit 2 Etsy's Google Paid and Organic Traffic

Google Traffic	Metrics	Values
Paid traffic (via SEM)	Daily Adwords budget	\$185 to \$1,410
	Average Etsy ad position	6.6
	Average number of competing ads	11
	Average clicks per day	1,090
Free traffic (via SEO)	Daily organic traffic value (estimate of equivalent in paid ads)	\$16,310 to \$44,320
	Average clicks per day	50,600

Source: "TC Teardown: Etsy, It's Crafty," <http://techcrunch.com/2010/09/11/tc-teardown-etsy/>.

Exhibit 3 Etsy's Source of Traffic by Year (in billions of visits per year)

Source: Etsy Form S-1, <http://www.sec.gov/Archives/edgar/data/1370637/000119312515077045/d806992ds1.htm>.

Exhibit 4 Etsy's Power Sellers

Year	GMS/Seller	% Active Seller	Earnings Per Active Seller
2011	\$ 817	100%	\$ 817
2012	\$ 2,241	53%	\$ 4,260
2013	\$ 3,314	39%	\$ 8,433
2014	\$ 4,299	32%	\$ 13,310

Source: "Unpacking Etsy's S1," <http://techcrunch.com/2015/03/29/unpacking-etsys-s1/>.

Note: GMS = gross merchandise sales.

Exhibit 5 Uber's City-by-City Rollout Plan from 2010 to 2012

Source: Chris Sacca, Twitter, <https://pbs.twimg.com/media/BiKi6bGCYAAxMn3.jpg>.

Endnotes

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