

Uber

I. Introduction

For decades, urban dwellers have struggled with finding cab rides to get around the city. Sometimes, one may get lucky and successfully hail a taxi in less than a minute. Other times, after spending twenty minutes frantically waving two fingers in the air as traffic races by, they give up and find alternate forms of transportation. Of course, one could always call twenty minutes in advance to book a taxi, but there could be an easier way. If taxis and passengers could find each other efficiently, both parties would be better off. As it turns out, a small start-up is trying to solve this dilemma.

Uber is a mobile phone application that serves as a middleman and connects passengers seeking a ride with drivers of luxury vehicles for hire. As smartphones are becoming increasingly popular, urbanites are exploring alternatives for transportation using location-based applications. These applications allow the transportation industry to be more efficient by connecting drivers to passengers who demand their services. Uber is fighting a two-fronted battle with the current taxi industry as well as other emerging location-based applications in its quest to create a more efficient market and continue its expansion.

II. Cab Industry Overview

In 1907, in the city of New York, 65 gas-powered vehicles were fitted with taximeters, a new invention at the time that could record the distance and duration of a trip.¹ The invention of the taximeter is the first of many innovations that contributed to the growth of the taxi industry. A few years later, Harry N. Allen, an importer of taxi vehicles, began to paint his taxis yellow after learning that yellow is the most easily recognized color from a distance.² In the 1940s, two-way radios were invented and greatly improved the service of taxis. These radios enabled two-way communication between taxi cab drivers and dispatchers to help connect ride providers to ride-seeking customers. Since the invention of the radio, the innovation within the taxi industry has been stagnant.

According to the Nevada Taxi Cab Authority, the annual revenue for Las Vegas taxicabs was \$386,028,000 in 2011. Passengers in Las Vegas take roughly 27 million trips per year and spend about \$15 per trip.³ If Uber could capture 10% of this market alone, they could realize revenues of around \$38 million at regular taxicab pricing. Uber charges a 50% to 70% price premium for its convenience and for its luxury vehicles, so they can expect to capture even more revenue. More importantly, this is only one market, and the U.S. has a quite a few large metropolitan areas left untapped.

III. Company Overview

History

Founded in 2009 by Garrett Camp, Travis Kalanick, and Oscar Salazar, Uber launched in 2010 in San Francisco.⁴ As of May 2012, Uber currently operates in 10 major U.S. cities including Los Angeles, New York, and San Francisco and is in the middle of expanding into Philadelphia.⁵ They are also planning to expand into 25 cities outside of the U.S. and have recently expanded into Paris, the firm's first

international endeavor.⁶ Major metropolitan areas are targeted due to the number of urban professionals who are open to the idea of an alternative to traditional taxicabs. Uber offers a solution that is stylish, comfortable, and more importantly, efficient compared to the current offerings in the taxi industry.

How It Works

Uber is extremely simple and convenient to use. Ride seekers simply download the Uber application from the application store for their devices. The sign up process is relatively easy, as Uber only needs an email address and basic information such as the user's name. Next, the user snaps a picture of his/her credit card using the phone's camera, and Uber's software automatically enters the credit card number into its database. There is no need for users to manually type in their 16-digit credit card numbers. The whole signup process should take less than five minutes.

Once the customer has signed up, the application will find their location via GPS and will display a map of luxury vehicles that are available for hire around the area. The customer will then set a pickup location and their choice of vehicle – sedan or SUV, and a driver will respond to the request. Notifications will be sent to the customer informing them the estimated arrival time of the driver. When the passenger arrives at the destination, no cash is exchanged, as the fare and tip is automatically deducted from the credit card stored in Uber's database.

Features

Uber prides itself in offering a new innovative and efficient way for urban dwellers to find sleek, comfortable rides around the city. One way Uber differentiates itself from the rest of the industry is by providing accurate real-time car tracking and estimated arrival times. Prior to Uber, people had to dial a number if they wanted to reserve a taxi in advance, and the taxi would arrive anywhere from five to thirty minutes. With Uber, users can see an estimate of how long a driver will take to arrive even before they request a pickup. Additionally, Uber also displays a map with the exact location of each driver within the vicinity of the customer, which appeals to users who prefer a visual representation of Uber's offerings. With these features, prompt and accurate pickup is ensured, which leads to more satisfied customers.

Another convenient feature that differentiates Uber from the rest of the taxi industry is the ability for passengers to pay via the Uber application. Gone are the days of fumbling for dollar bills to pay the cab driver. Tip is also automatically calculated so there is no confusion on how much to tip the cab driver. The application also has a rating system where the driver and passengers are forced to rate each other. This ensures that passengers are behaving appropriately in the vehicles and the drivers are performing at their best. The cars that Uber contracts with are all luxury vehicles such as Lincoln Town Cars. While a luxurious ride isn't necessary for many people, it is still a perk to ride in a clean and comfortable car.

Marketing

In an attempt to promote Uber, the startup launched a viral marketing campaign in the summer of 2012 that involved on-demand ice cream trucks via the Uber application. Users could request an ice

cream truck to show up to their location where they could then make a purchase. This created an experience for users to talk about, and word-of-mouth advertising is a huge reason why Uber has grown significantly.⁷ The campaign aligns with the company's overall brand – delivering an on-demand product with a premium experience.

Surge Pricing

Travis Kalanick, one of the founders of Uber, stated that Uber uses surge pricing to “ensure steady supply and lasso in uncontrollable demand.”⁸ Surge pricing is the practice of adjusting the price of rides relative to the demand and supply. Uber finds equilibrium within the market and adjusts its prices accordingly. The startup recently received a lot of media attention when it used surge pricing in New York City on New Year's Eve where prices increased three to six times higher than normal.⁹ Riders are notified of the raised price before they order a driver, so there is complete transparency in pricing. This practice eliminates any shortages in supply of drivers and ensures that rides are available customers who are willing to pay. Uber focuses on reliability and efficiency rather than low prices.

Business Plan and the Future

Uber is currently expanding internationally, with Amsterdam being its third European city. The company started in Paris and experienced quick profitability.¹⁰ As a result, they rolled out to London and are expanding throughout Europe. Uber has raised \$49.5 million in funding in order to expand globally with investors such as Goldman Sachs and Benchmark Capital.¹¹ It is crucial for Uber to move fast in its expansion, as having a first-mover advantage is key to success in this industry. Secondly, it must expand rapidly in order to prevent competitors from replicating Uber's success in other cities around the world.

In addition to expanding globally, Uber is expanding within the cities they are currently in by offering UberX, which uses a fleet of hybrid vehicles in place of the luxury cars of regular Uber. Currently, it is in private beta for San Francisco and New York City. The rates for UberX are cheaper and the fleet of hybrids is friendlier to the environment. This will appeal to people who are more price conscious, and people who are advocates of the environment which will bring additional revenue to Uber.

It is also important to note that Uber is profitable in a high percentage of the cities that it operates in.¹² Because Uber isn't a publicly traded company, we do not have financials, but Kalanick did say that Uber's gross revenues grew 66% last December. However, to continue to be competitive in the industry, Uber must be aware of its competitors and the new technologies they are bringing into the industry.

IV. Competitors

Cab Industry

One important fact to bear in mind when considering Uber's operations is that it competes with the conventional taxi cab industry as a whole. Since Uber is an entirely separate service from traditional yellow cab services, any revenue Uber earns is cannibalizing to the cab industry. While Uber markets itself as a substitute for yellow cab services, those services view Uber as a major threat to their business.

Because of this, many have spoken out against Uber and criticized its legal status, which will be discussed in Section V. While Uber's business remains growing quickly, the yellow cab industry bears significantly more political clout. The cab industry retains advantages of global scale, price, and freedom from legal issues, which could be a large threat to Uber.

Zimride Lyft

Lyft is a ridesharing service launched earlier this year in the United States to compete in the digital transportation market. Owned by Zimride, a network of large-distance carpooling arrangements, Lyft is an app for connecting ride seekers with drivers, with in-app payment services. While the legality of a civilian cab network raises questions, Lyft avoids legal troubles for now by declaring payment to the driver a "reimbursement" for services with "anything above and beyond that [being] a donation".¹³

Lyft's business model operates similarly to Uber's. Lyft does not own its own cars, and instead sources driving out to any users with cars in a given area. If the system creates a match, then riding users pay driving users for the service, and Lyft takes a percentage cut.¹⁴ Since these drivers are ordinary people, the prices are much lower than Uber's and competitive with or below cab rates.¹⁵ The similarity of Lyft's business model to Uber's as well as its more competitive pricing could be a threat to Uber in the future. However, nothing comes without a price, and Lyft's donations argument will likely become a point of contention among cab drivers who must pay large amounts of money to provide similar services.

GetTaxi / TaxiMagic / MyTaxi

GetTaxi, TaxiMagic, and MyTaxi are all apps that offer remarkably similar services to Uber. They operate in various cities in the United States, but none have the nationwide or global presence that Uber offers. The apps also differ in that they are aligned with yellow cab drivers rather than private car drivers. In most cases, the apps' drivers are standard yellow cab company drivers.^{16,17,18} These drivers receive equipment to receive job queries sent out by the respective apps. Prices are competitive with yellow cabs, and payment is built in.^{19,20,21} These three firms are examples of companies that individually may not be life-threatening to Uber, but can slowly eat away at Uber's market share through price competition. Collectively, these similar services could be detrimental to Uber's position in the future.

Hailo

Hailo is the most similar competitor to Uber in existence. Hailo offers all of the existing amenities that Uber does: in-app payment, wait time estimates with real-time tracking, and black car service.²² However, Hailo has avoided the legal problems that have plagued Uber due to its cooperation with existing black cab drivers as well as the authorities. Having already seen success in London, Hailo hopes to soon begin operations in New York City. Hailo is the most concerning competitor we see for Uber.

V. Strategic Issues

Legal Issues

Uber has faced much legal scrutiny since its inception. As early as June 2010, the company was ordered to cease operations in San Francisco under its old name, UberCab.²³ However, this did not stop the company as it rolled out to many cities worldwide and re-launched in San Francisco. Eventually, Uber faced scrutiny from other governments, as an Uber driver was ticketed and impounded in Washington D.C.²⁴ and the Taxi & Limousine Commission of New York attempted to drive Uber out as well.²⁵ The city of Chicago has also attempted to ban Uber²⁶, and San Francisco cab drivers have even filed a class action lawsuit against the company²⁷. Clearly, the company has had trouble with legal problems lately.

While none of these legal actions have done any harm to the firm's business yet, it is not a good environment for Uber to be in. Nothing good will come of these lawsuits, and in the future Uber may have to adjust its business to be more in line with policy. If it does not, any rulings against the company could be detrimental to its business, as it would be forced to cease operation in select markets, effectively going out of business in those regions. We will explore how to minimize these risks best in Section V.

Commoditization

Another issue that faces Uber is the commoditization of its business. As mentioned earlier, Uber initially carved out its market by differentiating itself from an otherwise commoditized market of cabs through high quality service and luxury. Unfortunately, with Uber's immense success has come a wave of imitators. Going forward, it will be crucial to see whether the market values Uber's experience as a premium worth paying for, or whether it views transportation as a commodity. If users flock to cheaper alternatives, Uber will have to adjust its business model to cater to these users.

Future Growth Opportunities

Uber has done a tremendous job of quickly gathering a following of loyal customers. However, compared to the entire taxi cab market, Uber is not a major player. Though it gathered a following quickly, the rest of the market will likely prove much more difficult to win over. Early adopters of Uber were likely price-insensitive users, and quality and speed of service was of more importance. The rest of the market definitely does not share the same mindset, and thus Uber will have to use different strategies to win the remainder over. At its current prices, Uber may be unable to continue growing so rapidly.

The company has already launched efforts to attract different market segments, as mentioned earlier with UberX (cost-focused riders) and surge pricing (speed and service focused). While UberX has lowered the price of an Uber ride significantly, and surge pricing allows the company to capture those users who will pay almost anything for guaranteed service, the company has failed to launch a product with the massive appeal it needs to capture the average cab rider. Unless Uber is content with maintaining only the high-paying customers with little crossover from the average riders, it will need to launch a broader market strategy in the future.

VI. Strategic Options

Cooperate with Authorities

First and foremost, Uber must end its major legal troubles once and for all. The company's future is constantly in danger when it is in legal battles, and any growth potential would easily be destroyed if a hard ban on Uber were to be instated anywhere. Thus, before pursuing other strategic avenues Uber must first remedy its situation among city councils and governments, cab companies, and cab drivers.

The best way for Uber to do this would be to make compromise with the demands of these parties. Since Uber's opposition believes it unfairly avoids taxi regulations and threatens the business of traditional cab companies, it should take action to better align itself with these parties. As the firm will undoubtedly expand into new markets, it could make use of existing networks of low-cost cab drivers. It could also reduce its legal troubles by meeting the requirements of cities to operate as a ride provider.

Continue Broader Market Strategies

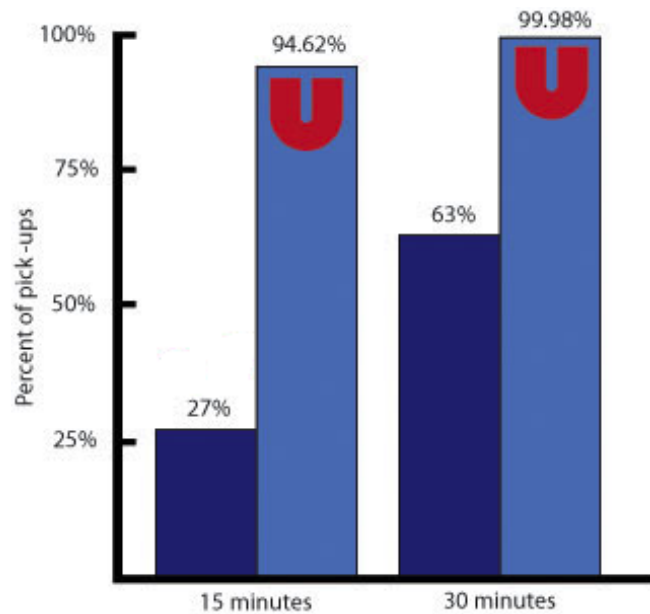
As mentioned in Section IV, Uber will need to capture more than the price-insensitive segment of the cab market it currently holds if it wants to continue its impressive growth. It has already made decent headway by offering UberX, a lower-cost hybrid service, in many of its markets²⁸ but will need to do more to capture more frugal customers. UberX is still more expensive than a yellow cab, and Uber will have to get closer to this price point to reach critical mass. This strategy goes hand in hand with the previous one, as partnering with cab companies would help it not only end its legal troubles, but have a lower cost network of drivers to work with as well. As its competitors toughen up and new entrants emerge, Uber will have to be aggressive in seizing market share before the market is dominated by many.

Continue Aggressively Expanding into New Cities

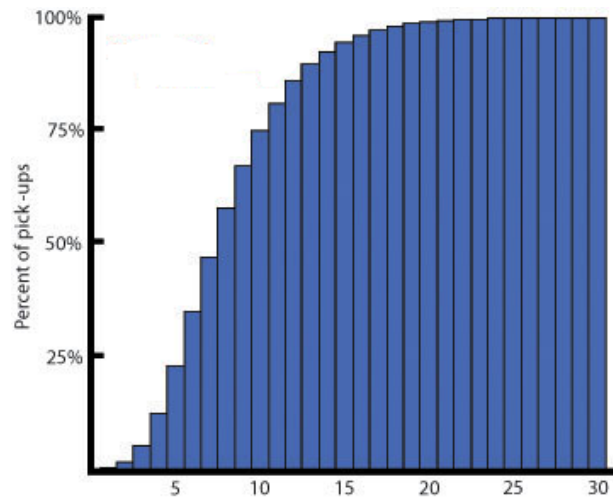
Uber now faces many competitors emerging in the cities it operates in. If the firm wants to minimize its risk and gain a true grasp of the market, it must continue aggressively expanding into new cities. By doing this, it will minimize the unique risk of its business by diversifying its markets. It will also help to continue expanding its brand worldwide, which will in turn help the company grow even more. Finally, and most importantly, a strong global presence will help Uber achieve a size and scale that will be hard for others to replicate, and it will raise the barriers to entry for firms like Hailo or Lyft.

VII. Conclusion

Uber has brought much needed innovation to the taxicab industry, but is now dealing with a handful of legal issues and opposition from current taxi companies. In order to be successful, Uber must overcome legal hurdles so as not to waste valuable time and resources in court. On the other hand, its brand, efficiency and service provide a competitive advantage. By focusing on what they excel at and utilizing their first-mover advantage, Uber has a very good chance of becoming a dominating player in the transportation industry.

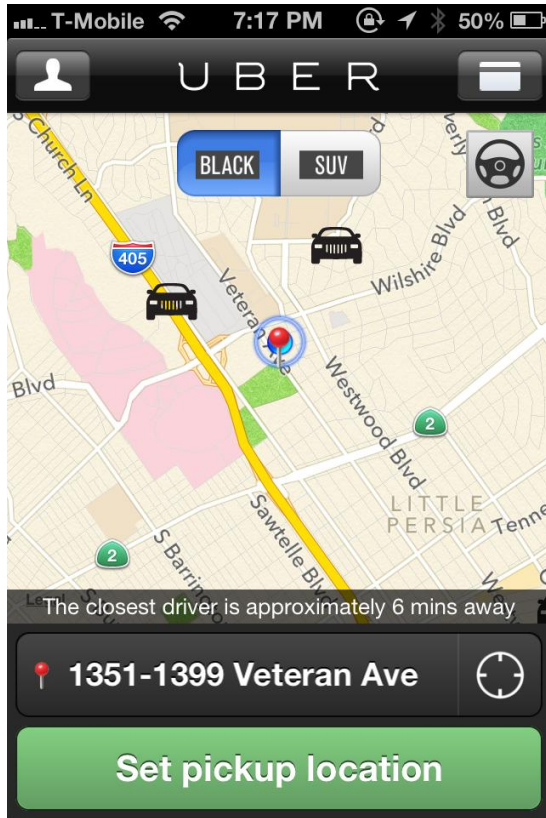
Exhibit 1:

According to the Count of San Francisco, 27% of cabs show within 15 minutes and 63% of cabs showed in 30 minutes.²⁹ Uber, on the other hand, provides a car within 15 minutes 94.62% of the time.³⁰

Exhibit 2:

This graph is an aggregate of the data that Uber collected since its inception in 2010. The x-axis provides the time of pick-up in minutes, while the y-axis provides the percent of pickup. According to the chart, 90% of all Uber requests are fulfilled within 13 minutes.³¹

Exhibit 3



The Uber application displays available drivers in the area. A simple green “Set pickup location” is all it takes to hail an Uber driver.

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