STUDENT CASE STUDY

UBER: Driving Change in Transportation

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Introduction

It was a sunny spring day in San Francisco on March 18, 2014, when scrappy Uber CEO Travis Kalanick emerged from a meeting to hear the bad news: the Seattle City Council just voted to place limits on the number of drivers alternative transportation companies like Uber could have operating at any given time. While Uber had faced many challenging regulations in other cities, this was the first time they suffered from new restrictions in a city where they were already operational.

Since its start in 2009, Uber had spread its operations to over 80 cities in 35 countries. As the company battled local regulations and worked to understand the unique transportation culture of each city they operated in, the tenacious Kalanick looked eagerly to the future to turn Uber into more than a car service and leverage its logistics and technology capabilities into a lifestyle and experience brand.

At the same time, customers appeared to be growing more vocal in their complaints around “surge pricing,” where users could be charged 1.5 to 8 times the normal fare price depending on the time of day and number of UberX drivers on the road. While Uber was birthed from the desire to have a black car service available to the upwardly mobile in San Francisco, it had become a service that maintained its luxury feel, yet was somehow more democratic—it brought together drivers and riders effectively and efficiently, with UberX typically costing less than a traditional taxi in most markets. This “luxury for the masses” approach made it a well-loved company, and Kalanick frequently leaned on public support as he aggressively fought regulators and powerful taxi commission interests. Armed with a recent infusion of cash, and poised to further expand internationally and offer new, innovative services, Kalanick wondered: who should he bring the fight to next?

Emergence of the Shared Economy

Uber’s growth over the past five years is an example of a major success in the greater “shared economy.” Largely a technology-enabled movement, the general business model enables companies to help consumers find ways to rent rather than own an expensive asset—the “sharing economy” feeds on the preferences for “experiences” over “ownership.” Online service companies utilizing big data driven algorithms allow people to share expensive goods such as cars, rooms, and other household appliances. While sharing among friends, family, and community is nothing new, technology companies have formalized the practice to make it a scalable and profitable business model.

The phrase “shared economy” emerged in the mid-2000s and grew in popularity between 2008 and 2010. In response to the financial crisis and global recession, several companies noticed consumers’ emerging desire to earn money on the side through shared profit models. One of the early leaders and pioneering companies of the shared economy was AirBnB, a technology company with an online platform matching room seekers to homeowners. This consumer-driven peer-to-peer rental market alone was valued at $26 billion. However, the success of this new business model attracted a more discerning eye from government regulators worried that this new “collaborative economy” was simply a means of sidestepping regulations, taxes and insurance.

The History of Uber

Uber was first launched in San Francisco, a city notorious for a highly regulated taxi industry with steep prices and insufficient services. The idea, however, originated in Paris at the LeWeb conference—a popular international event for Internet startups. Kalanick met Garrett Camp, then owner of StumbleUpon, and discussed the possibility of a reliable and quickly accessible black car service. During an evening of dining and drinking in Paris, the two gentleman half-jokingly discussed ideas for a
limousine to transport them safely to their hotel rooms. While limousines required pre-booking in
advance, Uber would grow rapidly in use and popularity because its smartphone application allowed
users to access clean and stylish vehicles at any moment and location. This early exchange between the
founders would coin the original Uber slogan: “Everyone’s Private Driver.”

**UberCab: The First Launch**

The transportation system prior to Uber forced people to access taxis by chance (hailing them on the
street) or by booking well in advance. The ubiquity of GPS systems and smartphones in the San Francisco
area encouraged UberCab, the original name of the service, to do a beta test in the Bay Area in March
2010 with plans to expand to other large U.S. cities by the end of the year. After advertising their
smartphone apps through websites and various deal promotions, UberCab finally served residents of
San Francisco by the summer.

**UberX: A Low Cost Response to Competition**

Despite ongoing battles with various local governments and taxi commissions, the success of ride-
sharing was clear and lead to other competing startups such as Sidecar and Lyft. In response, the lower-
cost UberX was launched in the summer of 2012 in San Francisco and New York. UberX provided low-
cost hybrid cars to its users, providing environmentally friendly transportation services. At the time,
Uber was operating in a dozen cities, two of which—Paris and London—were outside the U.S. The
motivation for UberX came after Uber’s experience in Chicago where the city’s taxi supply was limited,
and there was noticeable unmet demand for cheaper transportation services. Black car services were
still available and now under the label of UberBLACK. A chart of the range of Uber services can be seen
in Appendix A.

**What is Uber and how does it work?**

With over 500 employees and growing, Uber is a technology company that offers a free software-
platform available on a mobile device for those wishing to request a ride. At its core, Uber seeks to
match passengers to drivers. The platform is able to track a user’s GPS coordinates, even if the user does
not know where she is, and within minutes, an Uber driver will arrive. The user is able to track the arrival
of her ride, and receives a text message confirming when the Uber driver is arriving. From the driver’s
end, the driver is able to hit a button on his own app that says “Arriving Now” which sends the text
message. The driver is never given the user’s phone number directly, but is able to contact the user if he
is unable to find the user. UberX typically costs less than a normal taxi in most markets. However, in
times of high demand, like New Year’s Eve and snowstorms, “surge pricing” kicks in, and rates become
anywhere from 1.5 – 8 times as high.

**The User Experience**

No cash is exchanged when using Uber since signing up for an account requires providing credit card
information. After the ride, the user is charged electronically and a receipt is immediately emailed,
providing details of the trip. The user can then rate the driver (and the driver can also rate the user) and
check a map of the route taken. According to Uber, the company “push[es] the limits of the
transportation industry to create a simple, more efficient, and more enjoyable car service experience.
For drivers, Uber is a revenue stream, allowing professional drivers to make more money by turning
downtime into profits.”

Uber’s platform uses algorithms and “heat maps” to estimate how many potential users may be in an
area, which then matches with the number of drivers present in a city. Uber is able to analyze important
statistics like the number of times the smartphone application is opened to gauge supply and demand for taxis. As a result, there are shorter wait times for users, and drivers can be more efficient with the use of their time.\textsuperscript{vi}

Depending on the city, there is usually a base fare (similar to a cab “flag” fee), and a price per mile and minute. For example, in Boston, for an UberX, the base fare is $2.25 and then the user is charged $0.28 per minute and $1.45 per mile. A tip is included in the fare for UberTaxi, which the user can manage in her user settings on the web (0-20%). There are no tips included for UberX or UberBLACK.

Uber instituted surge pricing in 2012. Surge pricing works by using a multiplier (1.5X, 2X, 3X etc.) to the fare as an incentive to get more drivers on the road (increase supply) in order to clear the market, and maintain the convenience value of Uber. For example, during a massive snow storm that hit the East Coast of the U.S. in December 2013, users faced prices at more than 6 times the normal rate.\textsuperscript{vii}

\textbf{The Driver Experience}

Unlike the taxi industry, Uber does not employ or license its drivers, but rather views them as independent contractors. UberX drivers do not have traditional liability insurance like taxi drivers. There are no specific regulations that specify that Uber drivers cannot discriminate against users. In fact, Uber drivers receive ratings of users and may receive their photographs (users choose whether or not to upload a photograph of themselves to their account). However, where regulations exist against taxi cab drivers discriminating against riders, they are frequently flouted.

Drivers may choose to fill roles as UberX, UberBLACK, UberSUV, or UberTAXI depending on (1) the city they are based in, (2) possession of a commercial driving license, and (3) the type of vehicle owned (Appendix B).

\textbf{Uber Goes Global}

The unique experience provided by Uber enabled rapid growth and international expansion centered on three main focal points: a commitment to on-demand service, an efficient supply of luxurious rides, and the easy accessibility of its smartphone application.

After only 18 months of operation, Uber made its international debut in Paris in December of 2011. According to the Uber blog, “as we started expanding, it became clear that individual cities were the unique factor in our launches. Each city is unique in its transportation pain points, its density, its transportation alternatives, regulation, even its transportation culture. As we did more research we found that there were “classes” of cities that were not based on country... this realization meant that traditional thinking around domestic first, international second, just didn’t apply. Furthermore, the advent of a sophisticated ‘cloning’ and copycat industry means you need to move fast to stake your claim on the global stage.”\textsuperscript{viii}

Courtesy of a $258 million investment from Google Ventures, Uber would concurrently make gains in international and domestic expansion. They began in Singapore in February of 2013 and then expanded to Taipei and Seoul (two of the higher income cities of East Asia), before entering other East Asian cities. In 2014, Uber began rapid expansion in select Latin American and Middle Eastern cities.

\textbf{Facing Competition in International Markets}

Seen as a disruptor in the car hire industry, Uber is facing fierce localized competition internationally, from both conventional taxi drivers and new similar competitors in the local market. Sometimes such
competition turns into hatred and violence. In January 2014, during a Paris taxi-driver protest, angry drivers attacked an Uber car transporting two passengers from Charles de Gaulle Airport, causing more than 240 kilometers of traffic jams in the French capital. In other markets such as China, Uber is forced to compete with car-sharing apps that are dominated by Alibaba Group Holding Ltd. and Tencent Holdings Ltd—companies with the added advantage of consumer trust among locals, effectively threatening Uber’s growth.

**Obstacles in International Markets**

The major obstacles for Uber in international markets are poor infrastructure, low credit card use, and low smartphone penetration. Transportation infrastructure is lacking in many emerging markets—a challenge Uber did not face in the United States or Europe. Rates of adoption for more advanced mobile and banking technologies also vary drastically by country. Taking India as an example, according to the Reserve Bank of India, there are 19.6 million credit cards in circulation—approximately a 1.7% penetration rate. As Uber only takes credit cards, this represents a huge challenge. Smartphone penetration in India is only 18%, creating further obstacles to adoption.

**Uber’s Developing Challenges**

**Regulatory Barriers to Growth**

While Uber is extremely popular with consumers, the company is not without enemies. Since Uber’s inception in 2010, complaints from incumbent taxi drivers, taxi commissions, and government officials over the legality and regulation of the company have followed their expansion from city to city. Yet, the company has not shied away from entering new markets quickly, and battling regulators and incumbent interests as they build their operations.

Taxi drivers insist that Uber is essentially a taxi service, yet does not have to invest in the expensive medallions or follow the same regulations they do in order to operate. Regulation, Kalanick has said, is “an issue we have to deal with in every city.” In October of 2010, UberCab’s success put it in direct conflict with cab drivers in San Francisco. UberCab received a cease and desist letter from the San Francisco Metro Transit Authority and the Public Utilities Commission of California (CPUC). In response to charges of running unlicensed transportation services, UberCab changed its name to Uber. As demonstrated in Boston, the company has been highly successful at fighting back through leveraging social media to garner public support. This broad-based, visible support pressures elected politicians and government officials to either re-write existing laws or strike down lawsuits charging it with illegally operating transportation services. However, Uber has not been consistently in the good graces of the public. The company encountered a serious tragedy and controversy when, on December 31, 2013, Sophia Liu, a six-year-old girl was hit and killed by an Uber driver. The family subsequently sued the company, raising questions about Uber’s insurance and the extent to which the company is liable.

Uber has continued securing the support of prominent technology industry executives, which has oriented Uber as a technology pioneer rather than a transportation substitute. For example, shortly after the unanimous vote from the Seattle City Council, Michael Schutzler, CEO of the Washington Technology Industry Association, described how Uber is “not a new transportation service...rather, Uber is a match calculator that connects the people who want to be in cars with the people driving them.”

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1 Medallions are in essence taxicab licenses, which are for individual taxis or for taxicab fleets, and date back to the 1930s in the U.S. It was created in efforts to cap the number of taxis on the road. Medallions now sell on the market for as high as $600,000 in Boston.

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Uber: Driving Change in Transportation
In cities from Seattle and Chicago, to DC, Uber faces ongoing lawsuits from incumbent taxi and limousine companies. The most ardent opposition from public utility commissions and taxi companies claim that Uber should be classified as a motor transportation company rather than as a technology firm (such as Orbitz or Kayak.com). If Uber were to be classified as a transportation company and regulated as such, it would likely destroy their business model predicated upon non-ownership of physical assets, price control, and rapid scalability.\textsuperscript{xvi}

According to many critics of Uber, safety, predictable prices, and adequate insurance are still important public interest goals that could justify some level of continued government oversight.\textsuperscript{xvii} The lawyer representing the Liu family argued, “new technology does not eliminate well-established legal principles.”\textsuperscript{xxviii}

### Defining the Future of Uber

Uber faces a challenge in defining itself for the future – is it a service offering democratic and competitive pricing or convenience, service and luxury?

Initially, Uber did not set out to offer both super-competitive pricing and the convenience of having your own “private driver”—the convenience and luxury aspect was the original value proposition. However, with the introduction of UberX, the company attempted to balance both competitive pricing (in comparison to cabs), and the convenience of the mobile application and rapid door-to-door service. The implementation of surge pricing brought this tension—between rapid, convenient service and price—to the forefront.

Surge pricing led to a backlash against the company, with users claiming that they were being gouged or robbed. Uber’s response on their blog was upfront and stated that the mobile application clearly shows when surge pricing is in effect (Appendix C). Uber CEO Travis Kalanick stated:

“Uber is ALWAYS a reliable ride. Being unavailable, inconvenient is the opposite of Uber. This is a big part of why we do surge pricing. What good is it if we are as unavailable as a taxi system or an unreliable muni system on NYE? Being Uber means being “Always On” and “Always Convenient”.\textsuperscript{xxix}

The company also argued that the concept of surge pricing is very similar to dynamic pricing used by hotels and the airlines.\textsuperscript{xx}

### Uber Delivery Service: The Next Phase

As Kalanick and his team navigated global expansion, they looked beyond simply exporting the same model to new cities. Uber already had a solid logistics and transportation network in place—why not use it to move around more than just people?

Kalanick had publicly said that it is time for the company to move into “Phase Two:” becoming a lifestyle and logistics company focused on delivering items to people, using its existing network, “We need to stamp out an urban logistics fabric in every city in the world, then it’s figuring out other things we can do with that fabric.”\textsuperscript{xxx}

Uber will rely on dense urban networks to propel this business model forward. The company has already been playing with this idea, and testing its platform. On July 3rd, 2013: helicopter trips were available between Southampton and Montauk, New York as a promotion. Other recent, localized experience-based promotions include: ice cream truck requests, boat rides in Amsterdam, BBQ sandwiches in
Austin, sky-writing on Valentine’s Day, Christmas tree delivery in Seattle, and kitten delivery on National Cat Day.

Shervin Pishevar, a venture capitalist and close friend of Kalanick, explained Uber’s mandate: “Uber is building a digital mesh — a grid that goes over the cities. Once you have that grid running in everyone’s pockets, there is a lot of potential for what you can build as a platform. Uber is in the empire-building phase.”

A convenient, seamless delivery system for goods and services would fit perfectly into Uber’s new slogan “where lifestyle meets logistics.” The recent $258 million capital infusion from Google Ventures suggests that this could be a very real possibility. The relationship with Google also points to the future potential for driverless cars.

**Conclusion**

Opportunities and challenges abound for Uber. The company must both settle its ongoing disputes and continually innovate to stay ahead of its competitors. A clear tension between convenience and affordability continues to persist. In addition, Kalanick refuses to acknowledge Lyft, Sidecar and other ride-sharing apps as serious competition. Furthermore, its expansion into large metropolises with smartphone users will continually force it to confront regulation from powerful, local authorities. What should Uber do to understand and approach the local markets better than local players? Will the growing number of Uber users help them bypass these challenges or will they be subject to a devastating backlash?
Appendix A. Options for Uber Drivers

**UberBLACK**

You Are...
A professional chauffeur with a commercial license and commercial auto insurance.

Your Vehicle Is...
A black sedan, town car, crossover SUV that comfortably seats 4 passengers, or a full-size SUV that comfortably seats at least 6 passengers.

SIGN UP FOR UBERBLACK

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**UberTAXI**

You Are...
Currently a taxi driver certified and licensed by the city.

Your Vehicle Is...
A commercial taxi vehicle.

SIGN UP FOR UBERTAXI

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**uberX**

You Are...
At least 23 years old, with a personal license and personal auto insurance.

Your Vehicle Is...
Any mid-size or full-size 4-door vehicle, in excellent condition.

SIGN UP FOR UBERX
Appendix B. Timeline:

April 2010: UberCab creates app that is compatible with IPhone and Android

June 2010: UberCab opens in San Francisco

October 15, 2010: UberCab secures funding from over a dozen angel investors, including Rob Hayes who joins the Board of Directors\textsuperscript{xxv}

October 24, 2010: UberCab changes its name to Uber in response to a cease and desist letter from local government agencies in San Francisco

July 2012: UberX is launched, allowing low cost hybrid cars to be accessible for users

January 31, 2013: CPUC suspends its earlier cease and desist letter and rescinds its original fines on Uber\textsuperscript{xxvi}

November 2013: Uber expands to Manila, Tokyo and several Indian and Chinese cities

January 2014: In response to complaints about surge pricing, UberX cuts fares by 15% in top U.S. cities\textsuperscript{xxvii}

February 2014: Uber opens in 5 Latin American cities, including Santiago and Lima
Appendix C. Pricing Model

1. **Average Fare**: We calculate this range based on the average trip to give you an idea of what your total fare will be at the current rate. This number may vary for your particular trip, depending on a number of factors including the length of your trip, traffic and additional stops.

2. **Surge Pricing Rate**: This is the rate at which your fare will be multiplied. The average fare factors this in.

3. **Timer**: When your rate is 30 seconds from expiring, we’ll let you know so that you can choose whether to request or cancel.

4. **Expiration**: When your rate has expired, you’ll have the option to request again and get the most updated rate.2
Appendix D. List of Cities with Uber

NORTH AMERICA
- Atlanta
- Baltimore
- Boston
- Charlotte
- Chicago
- Cincinnati
- Columbus
- Dallas
- Denver
- Detroit
- Fresno
- Hamptons
- Honolulu
- Houston
- Indianapolis
- Inland Empire
- Jacksonville
- Los Angeles
- Madison
- Milwaukee
- Minneapolis
- Montreal
- Nashville
- New Jersey
- New York City
- Oklahoma City
- Orange County
- Palm Springs
- Philadelphia
- Phoenix
- Pittsburgh
- Providence
- Sacramento
- San Antonio
- San Diego
- San Francisco
- Santa Barbara
- Seattle
- Tacoma
- Toronto
- Tucson
- Tulsa
- Washington D.C.

CENTRAL & SOUTH AMERICA
- Bogotá
- Cali
- Lima
- Mexico City
- Panama City
- Santiago

EUROPE, MIDDLE EAST & AFRICA
- Abu Dhabi
- Amsterdam
- Barcelona
- Berlin
- Brussels
- Cape Town
- Doha
- Dubai
- Dublin
- Durban
- Johannesburg
- London
- Lyon
- Manchester
- Milan
- Moscow
- Munich
- Paris
- Riyadh
- Rome
- Rotterdam
- Stockholm
- Vienna
- Zurich

ASIA PACIFIC
- Auckland
- Bangalore
- Bangkok
- Chennai
- Guangzhou
- Hong Kong
- Hyderabad
- Kuala Lumpur
- Manila
- Melbourne
- Mumbai
- New Delhi
- Seoul
- Shanghai
- Shenzhen
- Singapore
- Sydney
- Taipei
- Tokyo
Study Questions

1. Will Uber be forced to adopt a model focused primarily on offering low prices for the masses or will they focus on convenience and luxury? Or can they possibly balance the convenience of their application and quick response times with prices competitive to cabs?

2. If Uber follows Kalanick’s current stated opinion, and prizes convenience over price, does it risk alienating part of its user base? What are the regulatory implications for this decision?

3. Is Uber’s model for dealing with regulatory issues (move fast, figure out details later) sustainable? How should Uber approach regulatory barriers in new markets?

4. What should be next for Uber? Should they continue to expand internationally? How can the company continue to innovate after such massive disruption to the taxi industry? Should Uber move into the logistics and “experience” space?

5. Should Uber be concerned about its competitors, Lyft, Sidecar, and other ride-sharing apps?


xv Ibid.

xvi Ibid.


