

CASE 10

Uber: Feeling the Heat from Competitors and Regulators Worldwide

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Company Background



Uber, originally known as “UberCab,” was started by Travis Kalanick and Garrett Camp in San Francisco, California, in 2009. Its target audience was young, educated, tech-savvy urbanites more likely to rent than own their own homes who generally got around via public transportation, biking, or walking. The company grew rapidly and by 2015 it was providing carpooling services in 300 major cities in 58 countries around the world.¹

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Garrett Camp, the founder of the successful StumbleUpon, had sold his company to eBay in 2008, and met Travis Kalanick, the founder of the peer-to-peer file sharing network Red Swoosh, in Paris that same year. Both were living in San Francisco and had problems with the taxicab services there. They discussed a plan to share the costs of a driver, a Mercedes S Class, and a garage parking spot using an iPhone app. When that worked for them, they figured others might have had similar problems with taxi services, and expanded their original idea. Uber began as a mix of taxicab and carpooling services that, as a smart phone application ("app"), used GPS to bring together people looking for rides and drivers, who were private contractors driving their own cars.² Customers chose a pick up location, the app then notified available drivers in the area, who accepted the pickup location, took the passenger to the requested drop off location, and charged the customer's credit card automatically.³ In early 2010, the service was launched in New York City with three cars. After a successful beta test in New York it went live for the first time on July 5, 2010, in San Francisco, CA.⁴

After its initial success, Uber expanded across the United States. It was a huge sensation in New York, Chicago, and Washington D.C., and made its international debut in Paris at the end of 2011. From there the company quickly moved to Toronto, London, Sydney, and Johannesburg. In the next couple of years Uber expanded all over the world.⁵

Uber's basic service was UberX, a low cost car service designed to get the customer from point A to point B. Once its original concept was well established in a given location Uber began offering new services such as UberXL, UberBlack, and UberPool. UberXL was similar to UberX except that it was slightly more expensive and offered vehicles with a larger passenger capacity. For a high-end experience UberBlack provided luxury cars for a premium price. Similar to the original concept of UberX, Uberpool was a low cost option which allowed passengers coming from the same area and going in the same direction to share a car at a discounted rate.^{6,7}

With Uber's rapid expansion came the need for additional funding. Soon after its official launch in July 2010 Uber closed a \$1.25 million financing deal with First Round Capital. By 2011, investors were eager to get a piece of the popular app and Uber raised another \$11 million with Benchmark Capital, followed by an additional \$37 million from Goldman Sachs later in the year. More funds were raised as Uber continued to spread into new markets. Its largest funding deal came at the end of 2014 when Uber received \$1.2 billion from the Chinese search engine Baidu.⁸

As of 2015, Uber was operating worldwide, a hugely successful service unlike any of its predecessors, continually growing and improving. Only the future could tell what was in store for Uber.

Strategic Direction

Uber conceived of its mission as making transportation "as reliable as running water:" a car would show up at the push of a button within 5 minutes, as reliably as getting water by turning on the tap.⁴ Uber wanted transportation to be available to everyone so it created both luxury and affordable options. Beyond its core mission, Uber wanted to move things, not just people. The company started doing some experiments to see what might work in different cities. In Los Angeles, Uber tried Uber Fresh for customers to push a button to get lunch delivered in five minutes. In Washington D.C., it was the Uber Corner Store for convenience store deliveries. In New York Uber started Uber Rush, a messenger service. As those at Uber began to realize: if a car could be delivered in five minutes, so could a lot of other things.⁴

At the same time Uber's goal was to remain cheap, fast, and efficient. Being cheap gave Uber a competitive edge. Being fast was part of its differentiation strategy. In short,

Uber sought to be so efficient that for most people using Uber was cheaper than owning a car. Being fast, cheap, and efficient would ultimately help Uber achieve its original corporate objectives of growing revenue and earnings for shareholders.⁵ The company conceived of itself as sitting on the border between bits and atoms: bits were the application's code and internet presence; atoms were the physical world cars drove around in. Together bits and atoms represented Uber's ongoing goal of merging intangible code and technology with the tangible world its customers lived in.⁵

Uber's biggest downside was the many legal hurdles it faced from regulators, as it came up against taxi laws written before the concept of Uber even existed.⁵

Uber's Product Offerings

Uber's product offerings grew very quickly, amended by name and objective over the past several years. Each service was designed to meet a different need of consumers to foster complete customer satisfaction. Services as of 2015 included: UberX, UberXL, UberBlack, UberSUV, UberPOOL, UberTaxi, UberSelect, Uber for Business, and UberRUSH (UberEATS).

UberX: the most commonly used, least expensive service, used ordinary, not luxury, cars. Drivers only needed a standard driver's license and to pass a background check. Cars had to be manufactured in 2006 or later, seat four with seatbelts, and pass an independent vehicle inspection.

UberXL: similar to the UberX service, but for six passengers, rather than four.

UberBlack: a professional service that initiated Uber's high-end reputation in the business world (though the name came later). The car had to be a luxury car that seated at least four passengers and newer than the cars used for UberX service. UberBlack catered to wealthy individuals including celebrities, executives, and those using it for a special occasion.

UberSUV: a Black Car service requiring the same standards as UberBlack but for six or more passengers.

UberPOOL: a newer service, created in reaction to one of Uber's most prominent competitors, Lyft, and similar to a carpool service, where riders traveling in the same direction could ride together and split the cost of the service.

UberTaxi: customers would use the Uber app to "hail" a licensed taxi cab driver priced at standard taxi fare and following standard taxi cab regulations.

UberSelect: less widely used in recent years. Similar to UberBlack, except the car was not required to be black, but still had to be high end. The cost sat between UberX and UberBlack. This service was only offered in select cities, not worldwide.

Uber for Business: used by companies around the world to offer Uber services to employees, customers, and anyone else interacting with the company for a discounted rate paid by the company. Companies set the policy as to who could use the service, when and where employees could be picked up, then let the application set the guidelines. The service mostly provided UberX cars (Uber for Business, 2015).

UberRUSH: Uber's most recent expansion into the delivery business, available in only three U.S. cities, offering same-day delivery by Uber couriers via bike or car for businesses to consumers at a price range of \$5–\$6. Also on the docket: further expansion of UberEATS, a food delivery service (Graham, 2015).

Uber also jumped into several short term services to suit the market including Uber ice-cream, which provided delivery services to different neighborhoods, Uberboat,

which offered mimic harbor cruises, and UberHealth, providing wellness packs with the option of free flu shots by a registered nurse for up to ten people for a small fee (Verena, 2015). The driving force behind these services was the notion of developing one off programs to meet immediate needs of customers. Additionally, extensive research and development was devoted to anticipating customers' demands and creating complete customer satisfaction.

Existing Competitors

While Uber offered a new take on an old industry using state of the art technology, it faced serious competition from other ride sharing apps with a similar business model, and from city taxi services with a wide range of experience that had been around for decades.

Despite competition, Uber dominated the market, leading in all 132 U.S. cities it entered out of the approximately 147 cities that provided ride sharing app alternatives to taxis. In 54 of the cities Uber dominated it faced no competition from other ride sharing apps.⁶

Uber's most similar market competitor was Lyft, a ride sharing app that copied Uber's business model, linking driver and passenger through the GPS on the user's phone. Other companies offering similar apps such as Curb and Side distinguished themselves by their pricing strategies or advertising but came nowhere close to Uber's market share.⁷

Though Uber was primarily a ride sharing app it was most often compared to the taxi industry, as it provided essentially the same service more cheaply and efficiently. As of the end of 2015, Uber did not have to adhere to the governmental regulations imposed on taxi services, which allowed it to operate with fewer costs. Uber's millennial users preferred its main innovation, its app interface for requesting or locating a ride, to ordering traditional taxi services by phone call or waiting till a cab happened to drive by.

Low Barriers to Entry

Barriers to entering the car services industry typically varied by location but for the most part were pretty low. Imitating the ride sharing app platform was also easy, as evidenced by the proliferation of Uber competitors. Easy entry into the market made it difficult for existing companies to maintain or grow market share, making it crucial for them to differentiate their services. Entering the taxi or luxury car service market had traditionally been fairly easy: a competitor would only need the capital to buy a car and perhaps a taxi medallion—a special permit to operate a taxi in a particular geographic area. Annual fees and rules for acquiring a medallion differed based on local laws.

While Uber had the advantage of being the first mover in the market, imitating its ride sharing app proved to be easy for its competitors. Only a few years after Uber's start, numerous competitors flooded the market at home and abroad such as Lyft, Ola (India), Didi Kuaidi Joint Co. (China), and GrabTaxi (Southeast Asia). As Uber only held limited patents, imitating its platform only cost the amount of designing the app and marketing it which, based on the size of the market and the potential for earnings, seemed worth it to many companies.

Legal & Political Landscape

As of 2015, Uber only owned one patent on its services. Faced with increased competition and seeing an opportunity, the company began filing patents on more than a dozen aspects of its services including "surge pricing" which multiplied rates during peak times.

its star rating system for drivers, and its system for calculating tolls. The company felt the patents would give it a competitive edge; and, should the need arise, allow it to bring suit against any competitor infringing on those patents, potentially eliminating some of the competition.

Uber saw further opportunity in the nationwide drunk driving laws prohibiting operation of a moving vehicle with a blood alcohol concentration at or above 0.08%, and positioned itself as the “safe” alternative for those who might have overindulged.

Most importantly, Uber cultivated relationships with local governments, as those local municipalities had the power to regulate how and when Uber operated within their domains, rendering them crucial to Uber’s success or failure. The necessity of cultivating these relationships became apparent when Uber came up against governments that did not allow them to operate. In Germany, for example, Uber was not permitted to operate because it was considered unfair competition for taxi drivers, who were required to pay for licenses and operational fees. Uber appealed the court case that banned it and awaited the decision—for it to have any future in Germany it had to win the appeal.⁷

Uber’s continued expansion in and beyond the 58 countries it operated in as of 2015 multiplied the complex political and legal scenarios it faced. The legal ramifications of Uber’s practices varied from country to country, raising the specter of backlash and criminal litigation. In California, the Labor Commission threatened Uber by ruling that an Uber driver was an employee, not a contractor, and thereby entitled to employee benefits. Further national and state laws could find Uber’s operations were breaking the law as the company eschewed any taxi-like licensing and did not follow employee labor practices for its drivers. Political unrest was also a threat in some of the countries Uber operated in. In countries such as France, labor union resistance to Uber’s competition with legacy taxi drivers risked injury to people during potential protests, resultant high insurance costs, and potential bad press, all of which made it eminently clear the company needed to carefully consider where it might expand its operations.

Uber’s drivers, meanwhile, as “independent contractors” had to consider whether, given their out-of-pocket expenses, driving for Uber really was an attractive proposition yielding sufficient income. Many expenses were tax deductible, yet there was some sense among drivers that true earnings were less than what they had expected, which put a dent in Uber’s ability to attract new drivers.

Social and Demographic and Other Income Opportunities

As a company that offered ride and delivery services, in demand by virtually every social and demographic group in the world, Uber was positioned to reach many demographics, and broadening services offered by tailoring them to particular constituencies and types of vehicle and technology platform. It was clear that what millennial customers wanted was instant gratification, options, and value for their money. Thus, Uber targeted specific demographics. For money savers, there was the low cost UberX. For quick delivery, there was UberRUSH bicycle delivery. In four cities, Uber introduced UberEATS, an on-demand food delivery service. Uber also tried out a one-day on-demand flu shot clinic in 35 cities by teaming an Uber car with a nurse who delivered 10 doses of flu vaccine per charge and location to allow co-workers and other groups to split the cost of the vaccine service. Uber’s app-based, global platform gave it the latitude to test different pilot programs in different markets, then refine those pilots to offer, perhaps, hour rather than over-night flower or gift delivery, and so on rather than as was more common, food or cargo delivery, at more competitive prices.

Uber also saw that it could reach out to various demographics by leveraging holidays or events effectively (e.g., by providing free rides to veterans on Veteran's Day and so on), garnering positive word of mouth that could be parlayed into effective advertising through holiday tie-ins and celebrations in the many different cultures and countries in which it operated.

Beyond its ridesharing services, Uber's ownership of deCarta mapping, which saved it money by decreasing its reliance on Google Maps, potentially provided another business opportunity as Uber could sell the mapping service to its competitors, yielding an additional revenue stream, and protecting those companies from being over-reliant on one source alone. Lastly, Uber could enhance its app by providing more information to both riders and drivers, to ensure a more accurate pick-up process so that the right person was in with the right driver and expectations were met, increasing peace of mind and reducing issues for both.

Driverless Cars

Uber had at least two incentives for an interest in driverless cars. First, much of the cost of an Uber fare went to the driver—driverless cars could cut much of that cost. More importantly, as driverless cars could offer a viable alternative to Uber's ride-sharing services, they could potentially pose a real threat to Uber. Uber, therefore, decided to invest in driverless car R & D, launching a strategic partnership with Carnegie Mellon University to work proactively with experts in the autonomous vehicle industry to understand how Uber might leverage the new technology to its advantage. Otherwise, as industry analysts understood, Uber might potentially be disrupted if it did not take the threat of self-driving cars seriously.⁸

Rapid Global Expansion

In a few short years, Uber's worldwide operations created many opportunities for expansion. What Uber learned from some of the more difficult countries to navigate such as India, Africa, and China positioned Uber to leverage future gains. Its global infrastructure, no small task to create, was potentially a massive advantage Uber had over new or local competition, as it would be better placed to adapt to new markets. Even though those in some countries might not have easy or affordable access to vehicles, or the mobile phones needed to use Uber, or scarce or expensive gasoline, it seemed ever more likely that the demand for ridesharing services would expand with the growth of developing economies worldwide.

Finance

- Uber's financial objectives, similar to those of any venture capital backed company were to:
- maintain/continue to grow the company's revenues throughout the over 300 markets it operated in.
 - expand the number of markets in which it was profitable from 80 to all markets to offset the subsidies provided to drivers and passengers.⁹
 - foster further growth to lead up to a successful Initial Public Offering ("IPO") of stock to allow participants in successive funding rounds to realize a return on their investment.
 - provide sufficient funding for expansion into additional markets and additional product offerings such as services to deliver flu shots.¹⁰

In January, 2016, General Motors (GM) announced that it was investing \$500 million in Uber's main competitor Lyft. Together, GM and Lyft will develop a network of on-demand autonomous vehicles.

Capital Funding

As of 2015, Uber had completed 13 rounds of funding for a total of \$8.21 billion from 53 investors including Google, Fidelity, and Baidu (China).¹¹ These rounds included traditional venture capital funding as well as both private equity and debt financing. While this capital funding provided Uber with a valuation of over \$50 billion, it was reported that Uber had initiated yet another funding round in late 2015 seeking more than \$2 billion, bringing the potential total valuation of the company to \$64.6 billion.⁹

These rounds of funding provided Uber with the financial strength to expand product offerings, especially UberXL and UberPool, and enter new markets, including China in 2015.¹² Without the funding, Uber could not continue to expand at the rate it had in 2015, nor could it continue to sustain the level of loss rumored to have occurred.

Revenue

At the beginning of 2016, Uber remained a privately held company whose revenues were tied to how well it leveraged its product offerings in the various markets it operated in. As the company successfully focused on its services and products, customer loyalty grew, yielding individual market revenues greater than taxi revenues within the same market.¹³ In San Francisco, for example, the very first market Uber began operations in, as of early 2015, revenues generated were more than 3 times greater than the revenues generated by the taxi industry and continued to grow as the number of rides used within San Francisco tripled each year, a revenue model which was replicated in other markets as well. For example, in New York City Uber rides quadrupled and in London they quintupled.

The push for greater revenues thus constituted a crucial and successful aspect of Uber's strategy. Reviewing the unaudited statements reported by Gawker indicated that the fiscal period from early 2012 through mid-2013, yielded an average of 69.6% growth in revenues from \$1.442 million in the first quarter of 2012 to \$19.331 million in the second quarter of 2013. However, while these statements were unaudited and not necessarily reliable, the successful rounds of funding and growing valuation of the company would seem to suggest the reported growth rate was valid.

Net Income

While Uber posted revenue growth that allowed it to return again and again to the venture capital markets, it was not a profitable company, because its entry into new markets incurred many expenses. The company understood it would have to spend heavily to attract both drivers and customers as well as subsidize the rates charged to customers and the fees paid to drivers to allow for the market to properly mature and sustain itself.

By early 2016, reports indicated that Uber was only profitable in about 27% of the markets it operated in (80 out of 300). Nevertheless, it was public knowledge that overall, Uber was operating at a loss as it tried to achieve the appropriate size for operations to support its financial needs.

Surge Pricing

Uber created three different pricing strategies for the marketplace: standard fee, airport rates, and “surge pricing.” Its standard fee, comparable to a standard taxi ride, was the most widely used. The Standard Fee included price variations depending on the particular service explained in the product section, as well as geographic location; however, the rates were consistent for each service. The Uber Airport Rate was also comparable to an airport taxi fare, and added a slight increase to the price of the ride to compensate for extended delays while driving to the terminals, increased toll rates or a variety of other inconvenient airport transportation factors (Uber.com, 2015).

It was Uber’s third pricing strategy that set the company apart from its competitors. Uber adopted “Surge Pricing,” a dynamic pricing model that hinged on the concept of supply and demand. The surge-pricing model, a term coined by Uber, operated on the principle that rides should cost more when demand was greater (Griswold, 2014) or supply lower based on an algorithm developed through significant research and development funding. The system was set up to calculate, based on the current demand (and supply), how much of a “multiple” the service would need to charge to ensure it had reliable vehicles ready for those who might actually need them. Customers would be notified prior to accepting the service that there was an increase in the cost per mile. Although it varied by location, Uber’s surge pricing only affected less than 10% of rides (Dickey, 2014) usually around holidays, during bad weather, or on weekend nights.

Uber’s prices and fees varied significantly from city to city and especially from country to country. The company charged cancellation fees ranging from \$5–\$10 depending on the specific service selected for services canceled five minutes or more after the service was ordered. Uber also developed the UberTaxi service with a standard taxi meter rate plus a \$1 booking fee and a 20% gratuity automatically added for the driver (Uber.com, 2015). All payments to Uber required a valid credit or debit card selected once the service was chosen. The card information was then saved on the app for future convenience. No additional tip was charged, nor was there a tip option in the app itself.

Uber’s Promotional Efforts

Uber’s promotional efforts focused on its target market using standard promotional strategies at all locations, as well as a variety of city specific programs to more directly provide services to a particular geographic location.

Uber’s most basic promotion was its “First Rider Bonus Coupon,” which deposited a credit in the user’s account which the customer could use for rides prior to paying any funds to Uber, regardless of the number of rides used. The value of the First Rider Bonus was as high as \$30 for new customers, but settled at \$22 in the United States. This promotional strategy focused solely on market share and increasing the customer base (Lucky, 2015).

Referrals were the second broadly used promotional strategy, which was focused on networking and provided \$30 (at the most) to an Uber user who referred another individual. That other individual entered a promotional code for the recommender to reap the benefit. In 2016, the referral bonus dropped to \$20, though Uber occasionally reverted to larger bonuses during select timeframes (Lucky, 2015).

Word of mouth, often the most effective strategy and partly encompassing the two promotional strategies mentioned above, conveniently required the least effort and expense from Uber as it relied on networking without any promotional fees.

In addition to these three preferred and widely used promotional strategies, Uber attempted to quickly generate market share in new cities by providing special promotions as well as posting promotions in already established markets to emphasize Uber’s

presence and increase brand awareness. For instance, the UberKITTENs helped “deliver smiles and kitten playtime in order to help foster adoptions and awareness for our local shelters. Uber helped connect over 315 kittens and cats to their new families and raised over \$40,000 for participating shelters” (Sarah, 2015). Uber’s New York City office hosted “The Next Generation of Woman Engineers,” a group of aspiring young women entrepreneurs who pitched apps relating to food, safety, news, transportation, and education (Ariella, 2015). The UberMILITARY program pledged to onboard 50,000 service members, veterans, and military spouses as partner drivers (Uber, 2015). And, the Uber back-to-school program focused on bringing together parent drivers, their kids, community organizations, and local officials to hear about parents’ experience and foster discussions on how the service could provide benefits to parents, including how to balance all that was involved in caring for children (Ariella, 2015).

Local Marketing

Given the variety of its locales, Uber developed a very decentralized marketing strategy which gave local community operations managers the autonomy to launch campaigns relevant to their particular city. The community managers, essentially the face of the brand in each city, were visible on social media accounts, and their names were attached to Uber’s responses related to customer inquiries. In addition, Uber focused on its relationships with riders and drivers in the local community to built up its network, and partnered with local organizations to promote its services. For instance, Uber’s Jacksonville team recognized the cultural significance of the NFL’s Jacksonville Jaguars to the local community and partnered with the Jaguars to create an integrated service which allowed customers to use the Uber app to purchase same day tickets then coordinate their transportation needs, thereby promoting Uber services by serving the public.¹⁴

Negative Publicity

Unfortunately for Uber, its aggressive behavior in bending legislative regulations and attitude towards competitors such as Lyft and Sidecar garnered bad press and negative publicity. When entering a new market, Uber’s approach was to dive in and deal with the legal consequences later. In Portland, Uber began operations without the formal approval of the city, then went ahead with an “unsanctioned launch party” where partygoers took photos of protest signs with the hashtag#WeWantUberPDX which led to a lawsuit and fines totaling \$67K. On top of that, Portland residents felt Uber’s aggressive tactics were “icky.”¹⁵

Uber’s attitude towards its competitors was even more aggressive and questionable. It was recently discovered that Uber employees ordered rides from Lyft then canceled them to decrease Lyft drivers’ availability and increase demand for Uber services instead. Lyft claimed 177 Uber employees canceled more than 5,000 rides in a year, making Uber look like a company that fought dirty and sanctioned disreputable practices to gain advantage over competitors.

Customer Loyalty

As of late 2015, Uber had done little to differentiate itself from competitors such as Lyft and Sidecar (Sidecar went out of business on December 31, 2015), and Uber recognized that to gain more market share and increase customer loyalty, it needed to focus more on branding. To enhance its brand, Uber created UberVIP whereby frequent riders with

more than 100 rides could qualify for elite status granting them better access to drivers with high ratings. However, it was not very effective, as most drivers were rated highly so VIP status didn't really garner anything tangible for riders, leaving Uber to face the challenge of creating a better, more effective customer loyalty program to encourage riders to stick with Uber rather than switching back and forth between Uber and its competitors.

Operations

Uber started its ride-sharing operations in San Francisco in 2010. By the end of 2014, the company's U.S. driver base had grown to 160,000 active drivers and 1 million drivers worldwide.¹⁶ Uber also operated in 59 countries and 300 cities around the globe. By early 2016, it seemed as though Uber was expanding to a new city every other day.

Political Lobbying

To combat the legal issues and challenges it faced, Uber built one of the largest and most successful lobbying groups in the United States with 250 lobbyists and 29 lobbying firms representing Uber's interests in major states throughout the United States.¹⁷ Rather than accepting the status quo or waiting for governments to change legislation incrementally, Uber aggressively challenged outdated regulations, oftentimes launching in a new city without approval from the local government as a way of pushing for its agenda to be addressed more quickly.

Mobile App

The intuitive simplicity of Uber's mobile app was one of Uber's greatest strengths, allowing riders to order a car with just two simple clicks and use GPS to see the physical location of the car and the expected wait time with ease, adding utility and value for the customers. Further simplicities included knowing exactly how much the ride would cost ahead of time as pricing was transparent, and saving credit cards to accounts so riders did not have to worry about having cash or tipping. In addition, the app allowed riders to communicate directly with drivers, cutting out the need for dispatchers, which ultimately saved Uber tremendous operating costs.

Dual Rating System

One of Uber's most unusual innovations was its dual rating system whereby after every ride, drivers and passengers rated each other on a scale of one to five, creating accountability on both sides. Drivers who dipped below a certain average rating risked being fired while passengers who received negative scores decreased their likelihood of being picked up by drivers. The dual rating system was designed to encourage a culture of customer service and respect on the part of both parties to foster a more positive rider and driver experience.

Data Privacy

One of the biggest criticisms leveled against Uber pertained to its data privacy policies, which were criticized for violating customers' privacy rights. Allegations surfaced that Uber employees had unfettered access to customer information such as travel records

and sensitive geolocation data.¹⁸ As the U.S. Privacy Act and other similar international laws mandated that Personally Identifiable Information on consumers needed to be protected it became necessary for Uber to adjust its data privacy policies. Uber also recently revised its privacy policy for tracking passengers even when they disabled the GPS features on the Uber app.¹⁹ Privacy advocacy groups protested against Uber's aggressive data collection methods and wanted the Federal Trade Commission to restrict the amount of information recorded. Many felt Uber needed to demonstrate greater concern for the misuse of its customers' data as Uber employees as well as external hackers were potential abusers of that data.

Driver App

While Uber's mobile app for riders was widely considered an app of great beauty and simplicity, the app for drivers always lacked the same level of simplicity and utility. Uber recently developed a redesigned app for drivers to use as a management platform to help tend and grow their business and improve their own experience with Uber.²⁰ The new application allowed drivers to see areas where they were most likely to pick up passengers and whether or not prices were surging. Ultimately, the app was re-designed to help drivers maximize their income, which in the end was meant to attract more drivers to Uber rather than other ride-sharing companies.

Core Competency and Competitive Advantages

Uber's core competency was its ability to create a technology platform that connected people who needed a ride with drivers who could help them. The seamlessness of Uber's service derived from its relentless pursuit of the user experience. The mobile app worked on the principle of providing a service elegant in its simplicity of delivery. In just three simple clicks, users could see how many cars were available within their pickup vicinity, estimate the waiting time and fare, order the car, and pay for the ride with a credit card that already linked to their account. This customer-centric approach added tremendous value to the consumer experience.

However, Uber's core competency of ease of use for customers did not translate to a competitive advantage for the company, especially as Lyft's user interface was an almost exact replica of Uber's and also touted simplicity and beauty. Rather, Uber's competitive advantages derived from four areas of strength: low cost, being first-to-market, product diversity, and fundraising.

Uber's first competitive advantage was that, compared to traditional taxis, Uber offered rides at a much lower cost, largely because its cars were owned by its drivers and not by the company, significantly lowering Uber's costs. In addition, Uber considered drivers contractors, not employees, so drivers were not eligible for costly benefits. Finally, Uber's mobile app allowed drivers and riders to communicate freely, thus eliminating the need for dispatchers. Taken together these three factors enabled Uber's low cost structure.

Uber's second competitive advantage was that it was the first-to-market in the ride-sharing industry which allowed it to develop an extensive global network before other ride-sharing companies really gained traction. As of late 2015, Uber was the only U.S. ride-sharing company to operate outside the United States. Its presence in international markets helped Uber develop a strong brand image worldwide. And, Uber's universal mobile application enabled U.S. citizens traveling abroad as well as international tourists visiting the United States to order Uber cars with the same level of ease as in their home cities.

Third, Uber's differentiation strategy enhanced its competitive edge by offering a wide variety of cars and car services. By the end of its first five years, Uber had seven different tiers of services ranging from simple everyday cars such as UberX to fancy luxury cars in its UberLux line. Its breadth of offerings allowed Uber to cater to many types of passengers while its competitors lacked the same variety of services.

Lastly, Uber's ability to raise capital was a competitive advantage that allowed it to invest in the company's growth, research, and development. In its first five years, Uber raised over \$8.21 billion from outside investors enabling the company to innovate by experimenting with ideas such as UberPool and spending heavily to secure a strong foothold in largely populated countries such as India and China.

Key Challenges Facing Uber

On the cusp of 2016, the primary weakness facing Uber was the class-action lawsuit challenging a crucial element of Uber's business strategy: classifying its drivers as independent contractors.²¹ If the Federal District Court of San Francisco were to rule against the company and all resulting appeals fail, Uber would be required to classify its drivers as employees who would then qualify for reimbursement for business expenses such as gas and auto insurance, as well as for employee benefits such as health insurance. These additional expenses would increase pressure on Uber's income flow as well as reduce the number of markets in which the company would be profitable. These additional expenses would also undercut Uber's chances of returning to the capital markets to access additional funding.

Uber was also facing challenges in the political realm. Before 2016 ride-sharing services were an unregulated market competing with taxis, limos, and other livery services which, unlike Uber, were subject to a variety of national, state, and local rules and regulations. Being unregulated allowed Uber a lower cost of entry into the market whereas livery services had to deal with the cost of licensing and other regulatory requirements. Markets such as Germany were not open to Uber as regulations prevented access. If other markets were to enact regulatory barriers to entry, it would significantly impact Uber's expansion possibilities as well as potentially force Uber out of some of its current markets.

In addition Uber's whole business-model was seen as relying on customers to download its app thereby limiting its potential customer base to smartphone users and creating an artificial barrier to growing its customer pool. A Pew Internet & American Life Project report from 2013, estimated that 91% of all U.S. adults owned a cell phone but of that 91%, only 61% had a smartphone, a customer pool, in effect, of only of 56% of U.S. adults with access the proper technology for downloading and using the Uber app, a situation likely to be duplicated in Uber's foreign markets as well.²²

It was clear that in considering further expansion, Uber had to figure out how to sustain its lead in a heavily regulated, controversial, competitive, and ever-changing market while moving forward into various vexed territories. While the market seemed amenable to new and various ride and car sharing innovations, Uber's regulatory/legal status was uncertain at best and very costly at worst, with regard to licensing and employee costs, especially if drivers were reclassified as employees. Finally, Uber also had to continue to effectively differentiate itself from expanding competition and become profitable—all steep challenges indeed.

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