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Submission date: 13-Jun-2021 07:43AM (UTC-0400)

Submission ID: 1605547182

File name: A_Case_Analysis_of_Uber.edited.edited.docx (21.43K)

Word count: 2784

Character count: 15589

A Case Analysis of Uber

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A Case Analysis of Uber

Uber Technologies Inc., previously called "UberCab," is an American international transportation system corporation headquartered ¹ in San Francisco, California. It was established in March 2009 by Travis Kalanick and Garrett Camp as "UberCab." It develops, markets, and operates the Uber smartphone application, enabling smartphone users to access transport and have it provided by Uber drivers in their cars. The program was accessible in 58 nations and 300 towns around the continent as of May 28, 2015. Since Uber's launch, many other enterprises have replicated its business strategy, a concept called "Uberification." This paper aims to analyze Uber in the context of inefficiency it exploited, its surge in pricing, its pricing in the face of discrimination, the company's potential for global expansion, among others.

Preceding Uber's entry, the "ride-share" economy was highly chaotic and technically inadequate. In major markets, the existing players were yellow cabs (in New York) or taxis in general. Clients could either order at their current location or call for pickups and be redirected to their location. The arrival of Uber significantly increased the demand for drivers. If labor markets performed as anticipated by economic principles, driver take-home earnings and work environment would have improved dramatically. Instead, Uber took advantage of several inefficiencies as they began their operation. One of the primary factors that Uber exploited was technology (Urbinati et al., 2018). Uber took advantage of the inefficiency in the taxi industry that had not been addressed by technology. Numerous technological advantages ensured that Uber had the advantage over taxis. Clients could start engaging with the company and voice their displeasure with any poor customer service. This would ensure that the firm strives to resolve these challenges, improve customer confidence in the business, and keep operators inline (Urbinati et al., 2018). Uber also exploited artificial market share to disrupt the ordinary market

structure. Before Uber's arrival into the market, significant city cab drivers' take-home income was only \$12–17 hourly, so they had to work 60–75 hours a week to earn that income. Despite promoting how it will better the experience of its "driver-partners," Uber lowered take-home payment to \$9–11 per hour, far below basic salary in many instances. Its comprehensive driver registration campaigns featured continuous falsehoods regarding net pay (before discounting car costs) as net salary, and the firm stated at one time that Car owners in New York received an average of \$90,000 annually. However, Uber's decision to shift the vehicle risk on the drivers resulted in additional artificial authority. Traditional taxi drivers could easily change occupations if they were dissatisfied. However, Zhao & Su (2019) argue that Uber's workers were tethered to vehicle financial obligations, making it even more difficult to quit once discovering the poor wages and benefits.

Moreover, Uber adopted a "growth at all expense" approach funded by a staggering \$20 billion in investment capital. This cash compensated prices and service standards that competitors could not equal because they had to cover their expenses with actual customer charges. Uber's enormous discounts were blatantly monopolistic and unsustainable, but they helped the firm achieve popularity among riders who welcomed not paying the total cost of their rides. The ensuing explosive growth was intended to attract people in the investment world who felt that explosive upper growth would be the only significant factor in deciding how startup businesses must be priced. Investors were particularly concerned about Uber's profitability and rarely considered if the startup could ever make sufficient revenue to cover the multibillion-dollar incentives. In addition to that, Uber's long-term goal has been to eradicate all serious rivals and profit from its quasi-monopolistic dominance. While it has managed to use some of this artificial leverage to restrict driver salaries, it has not yet gained the dominance it hoped to wield,

akin to Facebook or Amazon (Urbinati et al., 2018). Uber is a first-of-its-kind example where the popular opinion of a new startup was entirely formed by fabricated storylines akin to that used in antagonistic political races. In addition, Uber's most effective strategy is its narrative crafting. These tactics were deployed to completely redirect focus away from the massive incentives that were the actual sources of the firm's worldwide popularity.

In the context of Uber's surge in prices and the shift in demand and supply, the reasoning is that its attainable level mainly defines the demand for a product or service. Surge pricing takes effect when the supply for trips surpasses the availability of drivers, raising the cost (Chen & Sheldon, 2016). A 'surge' icon automatically appears on the customer's interface. If a passenger still desires a ride, Uber will display the spike increase and ask users to accept the premium cost. In addition to that, surge pricing has two impacts: clients willing to wait for a ride generally decide to wait till the prices come down, and nearby operators go to that location to collect the higher premiums. Consequently, the number of individuals seeking Uber services and the number of active drivers become ever more equally spread, minimizing long waits. In essence, Chen & Sheldon (2016) argue that Uber's goal is to provide as many rides and operators as feasible, irrespective of any artificial or national disaster that might hinder conventional forms of transport from fulfilling customer demands. Uber's goal here is not to increase prices indiscriminately; instead, it employs its sophisticated technology to respond to locations and times of short supply. Uber's surge, in theory, matches market forces by repositioning drivers to such zones, ensuring that the sharp rise is reduced as a result of the rush of operators.

Evaluating Uber's surge pricing in the context of discrimination reveals that Uber is one of the companies determined to make profits at all costs. For instance, Uber introduced the UberX initiative in 2012, enabling virtually anybody to be a driver. Uber's reputation

skyrocketed thanks to the UberX initiative, making the organization one of the fastest-growing and most lucrative startup startups on the planet. In addition to that, as discussed earlier, Uber rates increase at rush hours as a response to surge pricing to get more cars on the streets and enhance reliability (Castillo, 2020). When there are more drivers on the road, prices return to normal. However, the model used by Uber exploits clients during emergencies, holidays and rush hours. That is why the surge pricing strategy is considered discriminatory. Uber can serve an array of economic tiers by employing novel lines of operation that serve the same function. Uber can effectively price discriminate at five price points, spanning from UberX at the cheaper side to Uber LUX at the premium segment. When a company offers a product or a service to potential consumers at multiple different prices for motives often not tied to economics, it is referred to as price discrimination. The firm earns extra profit from price discrimination.

Economies of scope and scale are two notions that highlight why multinational firms' budgets are often lower. The average costs of production of a variety of products are the focus of economies of scope. On the other hand, economies of scale are associated with the competitive edge that arises from a broader level of output for a single product. In the case of Uber, it is a software entity, not a transportation company, contrary to popular opinion. Transport operators can think local, designing services that allow them to increase their operations depending on the needs of their service while also trying to balance those economies' expenses. Transport operators have always been intrinsically local players: carrying clients from one location to another, which is how the industry operates. However, technology enterprises, on the other hand, are inherently international because their product innovation needs worldwide markets to recognize their business models and revenue streams fully. A local firm's competitive interactions are significantly distinct from those of a hostile force like Uber. A retail company

can try to adapt to meet the needs of a limited segment of customers, but keeping them pleased does not need ingenuity. A global multinational must fulfill the demand of various factions in various locations around the globe, each with its list of requirements and requirements, which demands resolving distinct issues. In addition to that, there is globalization. An Uber customer in one country can visit another country and receive the same quality of services, provided they have the Uber application installed on their smartphones. Also, the concept that local competitors can compete in the international markets in a world where people travel more than ever is nonsensical. When a sector, like transportation, becomes transnational and has a significant technological element, it becomes hard to compete locally. In essence, venture capitalists see the value of the corporation's economy of scale and scope approach, which is why it is highly regarded.

Furthermore, Uber innovates its corporate structure employing Game Theory tenets (a decision-making framework adopted by companies, people, and agencies to make informed decisions) (Muller, 2020). Uber's pricing strategy, and its policy towards freelance taxi drivers, differentiate the firm from its rivals. Uber operates in an ongoing 'game' with its taxi drivers to persuade them to stick with the company instead of switching to its rivals. To influence when, where, and how long drivers work, the company employs behavioral incentives and other sociological practices. According to Muller (2020), it is a race to find the most efficient system feasible, maintaining a balance between rider desire and driver availability at the lowest cost to riders and the business. Uber has explored with video game tactics and non-cash rewards of little significance to incentivize workers to drive harder for longer, and often at hours or locations which are less profitable for drivers, by engaging dozens of sociologists and statisticians.

Uber's global reach is enticing to financiers. However, the business has to overcome local policy and political considerations on how it operates not only in the US but in other jurisdictions (The Washington Post, 2019). Its future depends on its ability to expand globally. However, the company must be aware of the dangers its services present in foreign markets to its reputation and bottom line. In addition to that, Uber's success was built on the struggles it won with regulators and policymakers in the US over the last decade. Uber acknowledges that its sustainability will be reliant in part on its ability to win over policymakers all around the planet as it reveals possible risks to investors. For instance, Uber's business strategy rests on its personnel being categorized as freelancers instead of staff. However, authorities in other jurisdictions may react differently to this business model as the company seeks to expand in new markets. Regulators worldwide are questioning how Uber categorizes its personnel (The Washington Post, 2019). Even as drivers in the United States decried the firm's compensation and employment terms, the worldwide perception is the opposite. For instance, in 2018, a court in the United Kingdom backed a judgment that Uber ought to offer its operators incentives like paid holiday and base pay. In addition to that, the taxi industry is robust in the international market, where different countries have gained valuable insights from Uber's rapid growth in the US. Uber may find it problematic to expand into new territories, especially in countries where local taxi operators exert pressure on the authorities to halt Uber's entry in favor of local taxi businesses operating using similar models. Many cab drivers, especially in Europe, have emphasized their objections to Uber's entrance into their areas. In Germany, for example, ride-hailing platforms like Uber are highly regulated, and cab drivers have staged major protests against efforts to lift those regulations.

In addition to that, Uber's corporate identity could be tarnished because of occupational injuries involving the business in other jurisdictions. For instance, when a commuter or Uber driver is injured in a different nation, it might hurt Uber's reputation worldwide. In its submission, the enterprise provides accounts in other nations to have wounded its reputation, including a 2014 incident in India where an Uber operator was convicted of sexually abusing a female passenger (The Washington Post, 2019). Also, it advises that throughout Latin America, there have been several allegations of violent crime involving both drivers and passengers using the platform, notably assault and robbery, violent abuse, and sexual assault. In addition to that, Uber has been probed by the Federal Trade Commission in the United States, and regulatory authorities in other jurisdictions, for confidentiality and competitive considerations. Uber's data leak in 2016 did not simply expose it to the radar of authorities in the US. It subjected the organization to penalties from across the world. Officials in the United Kingdom and the Netherlands imposed sanctions amounting to roughly \$1.2 million due to the breach (The Washington Post, 2019). Bearing in mind ³ that the European Union's General Data Protection guideline ^{is} already operationalized, penalties from overseas authorities for violating rights restrictions are likely to escalate, making it difficult for the company to expand into new markets.

Moreover, Uber's payment model differs from the norm in the employment market because it promotes incentives via the "Boost" scheme, which works similarly to the "surge multiplier" and not in the same manner. As a result, the repercussions on incentive-based remuneration are likely to be more pronounced than on the broader labor market; in the general labor market, the typical bound worker receives only 33% in incentives compensation each week. Consequently, assuring a minimum wage reduces the quality of the principal-agent

problem and may affect Uber's profitability and the sector's long-term employment prospects. In this regard, Uber should have sufficient power to enforce a high level of minimal effort in sustaining their long-term status, for instance, by enhancing job freedom and enhancing Uber's power to recruit and fire employees based on merit.

In addition to that, Uber has asymmetric information issues in its model of operation. For instance, in the sharing economy, the technology adopted by enterprises as proprietors of vast resources creates inequities in employment relationships. Because the contracting authority, such as Uber, has more access rights than the operators, it can alter the rules in its favor.

Consequently, due to asymmetric information, Uber drivers are inferior allies. They agree to follow the company's protocols on their own accord (Zhao & Su, 2019). In addition to that, the Uber taxi operators are compelled to accept the terms or exit the partnership with the company. Drivers can be exploited as a result of this difficult decision. In this regard, when it comes to eliminating information asymmetry, the involvement of associations or unions becomes critical. The organizations can take the shape of cooperatives founded by courage-based transportation providers. Complete obligations in the form of contractual agreements are the responsibility of the drivers' unions.

To sum it up, Cab drivers have been able to form a powerful movement worldwide. This advocacy group enjoys broad support from authorities and politicians in different jurisdictions. As a consequence of the taxi lobby's significant impact, citizens are frequently left in the dark. The people perspective has frequently eluded the focus of public programs. This resulted in a situation in which the taxi market became confined, generally unavailable, inaccessible, hazardous, and expensive, with variable service levels for consumers who preferred to use private transportation rather than depend on the traditional taxi industry. In ride-sharing services,

there existed a significant gap that needed filling. Uber realized the potential with meticulous planning and execution to match customer demand, regaining the trust of existing clients while also drawing new ones. Uber has taken advantage of its strengths in information technology applications, creating systems that fully utilize the potential. Low-cost turnover is the outcome of the investments (cars). As a consequence, both the customers, the company, and the drivers benefit. More importantly, Uber has restored consumer confidence in ride-sharing taxi services.

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/444

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Instructor

PAGE 1

PAGE 2

PAGE 3

PAGE 4

PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

PAGE 10

PAGE 11
