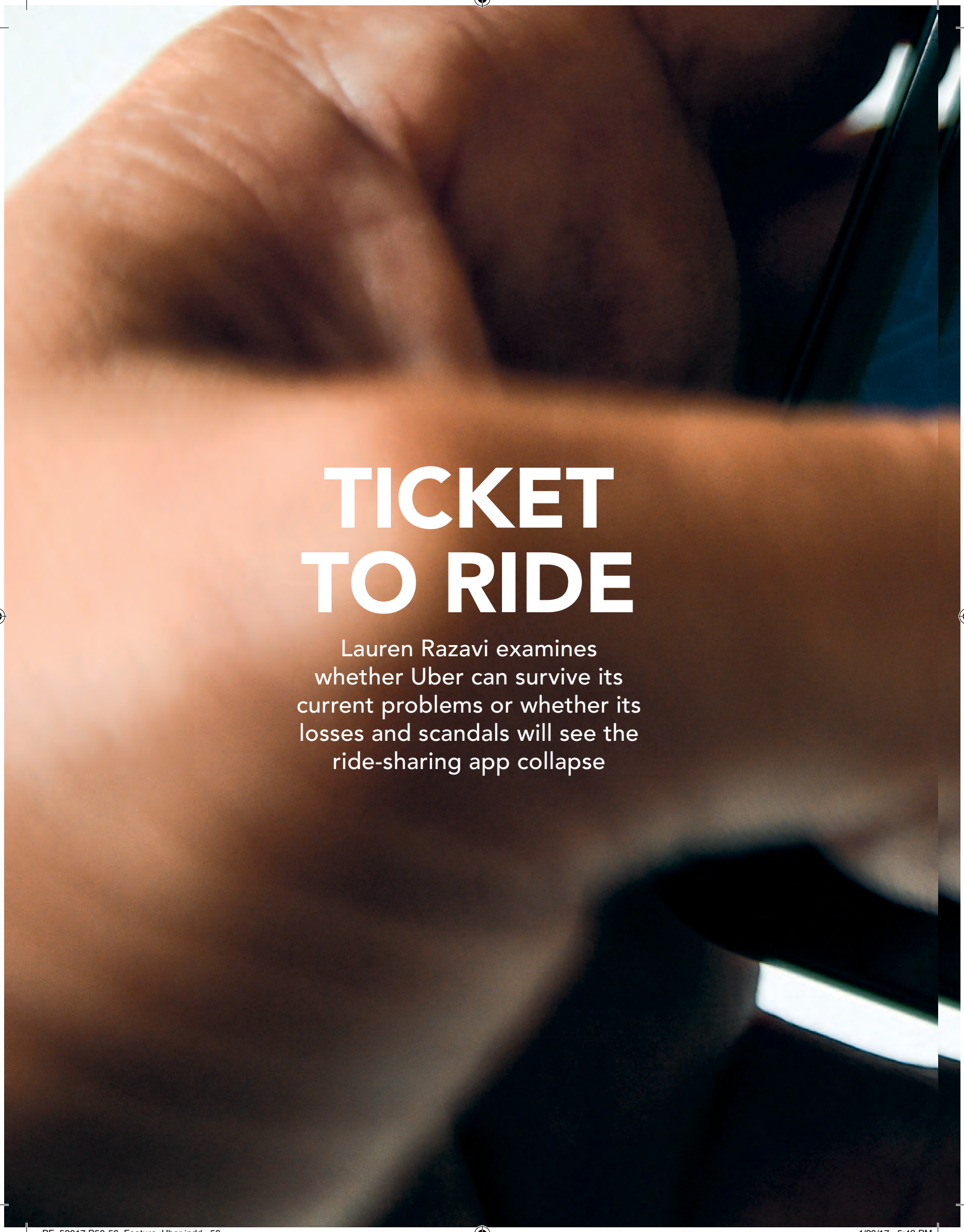
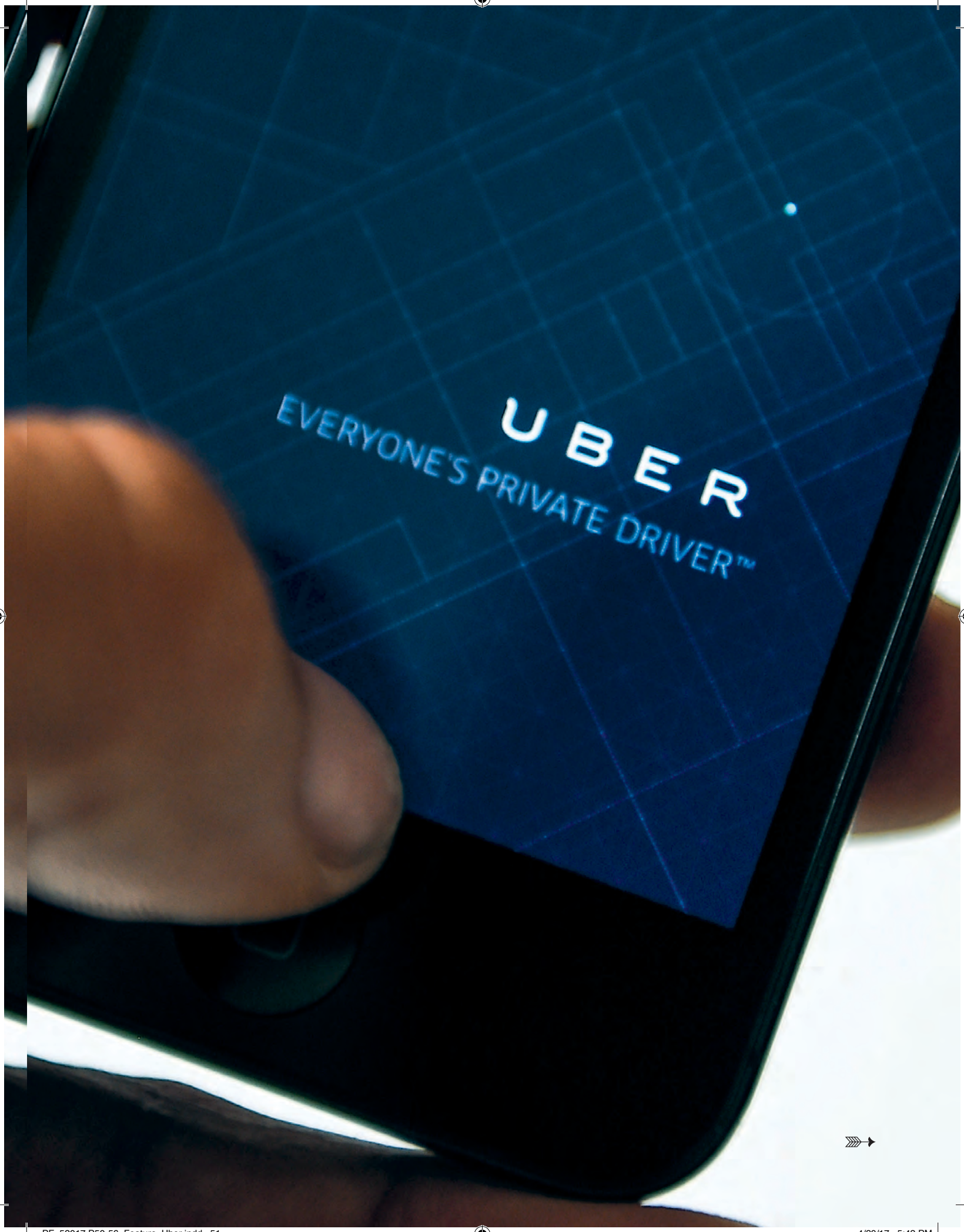


TICKET TO RIDE

Lauren Razavi examines whether Uber can survive its current problems or whether its losses and scandals will see the ride-sharing app collapse


UBER
EVERYONE'S PRIVATE DRIVER™

The world's most valuable private start-up has a money problem. Despite a valuation of more than $69 billion, Uber recorded losses of $1.27 billion during the first half of 2016 and lost a further $800 million in the third quarter. While burning through dollar bills is nothing to be ashamed of in Silicon Valley – nor is it a particularly notable phenomenon – the company has also suffered a series of well-documented scandals over the past year, including the resignation of Uber president Jeff Jones in March, just six months after he joined the company. Instances like this have led many to question what comes next for Uber and whether the company has a viable future at all.

The taxi industry has always been a thin-margin business with vehicle upkeep, fuel prices and insurance to factor in. The costs involved with running a fleet of vehicles soon add up – especially when labour is expensive and most drivers spend an average of more than 30 minutes each hour waiting around for their next ride. Using its technology, Uber has been able to almost halve idleness, an efficiency that results in a lower cost per ride and fewer cars on the road. But the company's model of working with drivers as freelance contractors has come up against minimum wage laws in the UK and Canada, where courts have ruled the drivers should be considered employees and are therefore entitled to traditional pay and benefits in the eyes of the law.

In an increasingly competitive marketplace, Uber has not only failed to turn a profit so far but it has also failed to establish a monopoly. This has left the company unable to raise fares from the rock-bottom prices that riders have grown to expect while also racking up spending on projects that divert the company into additional services. Rather than maintaining a razor-sharp focus on moving passengers from A to B, the company's strategy has been to experiment with wider challenges in logistics such as food delivery, courier services and even flu vaccinations. Although this might be a smart way to capitalise on its technology, a lack of focus on its core mission has led to speculation about the company's long-term viability and future.

Despite its ambitious – and somewhat confusing – efforts, Uber remains predominately known for two things: disrupting the taxi industry and garnering controversial headlines.

Uber chief executive Travis Kalanick has been at the heart of a series of high-profile media scandals since founding the company in 2009. Most recently, Kalanick was caught arguing with a driver about fares in a video that went viral and quickly spurred accusatory public debate about Uber's treatment of its employees and contractors. Thanks to the company's structure as a legal entity, however, the company's board is unable to remove Kalanick from his position.

Martijn Arets is a collaborative economy analyst and co-author of *Wavemakers*, a book examining the entrepreneurs behind companies that have achieved exponential growth. He believes that outspoken CEOs like Kalanick can provide benefits as well as cause controversy in today's high-stakes world of tech start-ups.

"These CEOs enter a market where consumers feel pain and deliver a solution that is 10 times better than anybody else's and they do this by focusing on delivering convenience at a competitive price," says Arets. "The research comes after exponential growth. They only begin talking to regulators when they have gained ambassadors in the form of their users."

"It's people not tech that ultimately builds a successful company culture and helps it scale over time"

But for a disrupter like Uber to establish a loyal fanbase and leverage that foundation to build a successful company, employees and work culture are just as important as innovative technology, if not more so. Start-ups in the digital disruption marketplace must balance creating a great product with attracting the right talent and ensuring their workers feel valued. This becomes especially important for a company like Uber that is subjected to daily scrutiny from blogs and newspapers and relies on venture capital funding to stay afloat.

"It's people, not tech, that ultimately builds a successful company culture and helps it scale," says Neil Collman, principal experience designer at Nile, a service design and business research firm that works with companies and other large-scale organisations in Europe and the US. "As customers and employees, we like to see a reflection of ourselves and what we value in our environment, the way things work and the people we work with."

Questions about the fairness of Uber's business model, particularly for drivers, often arise. ➛

Uber controls the pricing of all trips, takes a cut of 20 to 25 per cent for each ride and expects drivers to cover all costs relating to their vehicle. Many drivers talk openly with their passengers about struggling to make ends meet under these conditions and regulators in some locations are intent on making an example of new players that disrupt the long-held status quos of traditional industries. Despite these ethical debates, however, Uber's trailblazing journey continues.

"Uber's current strategy is not sustainable – especially for the drivers. People will only adopt a fairer solution when it offers a better service"

"In the short term, convenience will win," says Arets. "Although anyone can see that Uber's current strategy is not sustainable – especially for the drivers – people will only adopt a fairer solution when it offers them a better service. But since transactions in the sharing economy are local, I foresee a growth of hyperlocal initiatives in the coming years."

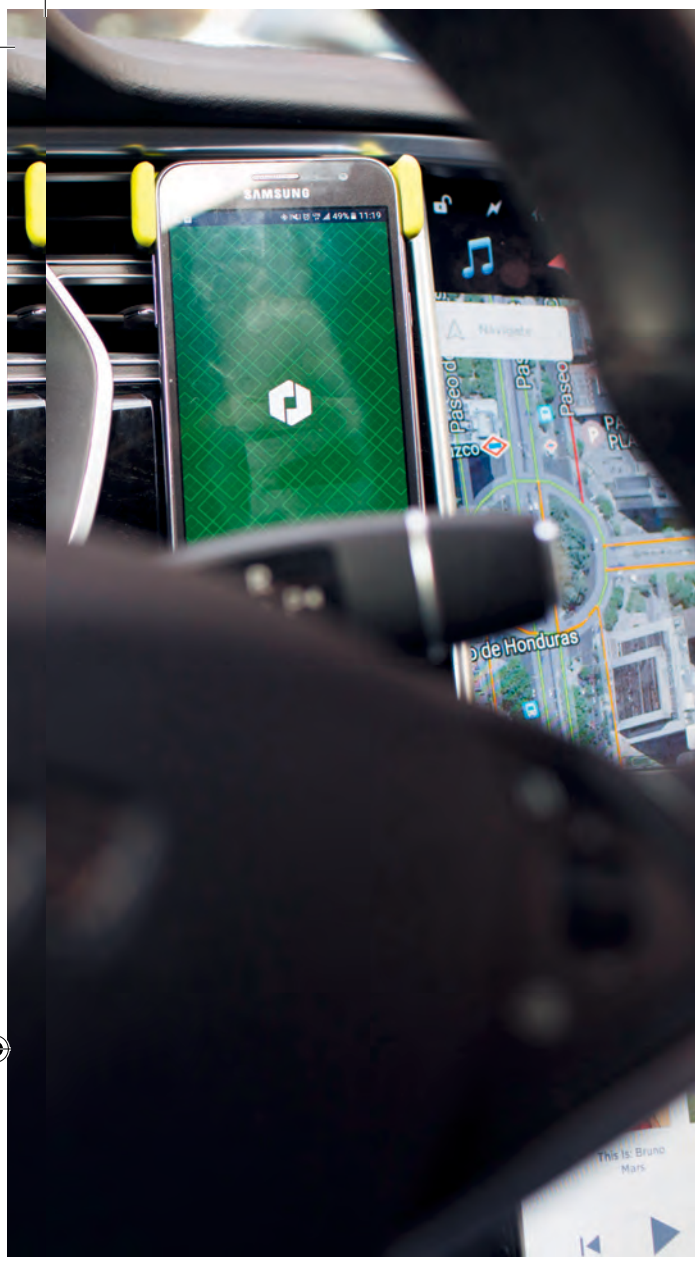
When innovative digital products and disruptive business models prove fruitful, it's not long before similar start-ups emerge to compete in the space. Apps such as Lyft, Ola and Didi Chixung have all capitalised on Uber's success, carving up its initial monopoly – and in Didi Chixung's case, buying out Uber's Chinese operations altogether. The ride-sharing market becomes more saturated each day and as that happens, it becomes harder for Uber to reverse its mounting losses and continue to strive towards the goal of profitability.

"I definitely see a fragmentation of the market with niche entrants taking advantage of blindspots or areas that bigger players cannot colonise easily or do not want to," says Collman. "In service design, we see a trend toward the rise of niche experiences as markets are monopolised, polarised or saturated. In this case, could there be an ethical transport service that offers the same convenience? Or one that is designed especially for business travellers?"

Last year, ride-hailing app Juno launched in New York with a structure allowing drivers to own 50 per cent of the company's equity by 2026. Presumably taking lessons from Uber's experience, Juno offers a much more appealing deal for drivers – although it's certain that fewer passengers know about the service. In Denver, 800 taxi drivers have each invested $2,000 to start a cooperative and develop their own app known as Green Taxi, which is a fully self-financed platform and has achieved a regional market share of 37 per cent so far. These examples are part of a wider trend towards what Arets describes as "platform cooperativism" in the US, where workers organise themselves through cooperatives and build their own sharing economy apps. But these business models come with their own set of challenges.

In Austin, Uber and Lyft departed the market just over a year ago when regulators introduced requirements for drivers to undergo fingerprint-based criminal background checks before using the apps to find work. During this year's SXSW film festival, local ride-hailing services Ride Austen, Fasten and Fare became overloaded with demand when a sudden bout of rain hit the Texan city. Drivers circled the streets unable to connect with riders while the apps either displayed a

Apps such as Lyft have all capitalised on Uber's success, carving up its initial monopoly



loading screen or reported that there were no drivers available. Strict regulations might foster more localised services but a lack of consistency and reliability can put users off quickly.

As cities across the world attempt to reconcile traditional business models with digital disruption, Uber's refusal to comply with regulations has opened up market opportunities for its competitors. The introduction of new requirements for sharing economy drivers to hold valid taxi licences in Budapest led Uber to withdraw from the Hungarian capital last year. Ride-hailing app Taxify, an Uber competitor founded in Estonia, moved in to plug the market gap almost immediately and now counts Budapest among its key markets. Uber's last day of operations in Copenhagen was April 18 and Taxify intends to step in there too. So what does the company do differently to Uber?

"We work with both taxi companies and private drivers. In Hungary we entered the market operating solely with [existing] taxi drivers and

UBER PROTESTS

Argentina
Buenos Aires saw demonstrations against Uber in October 2016. The drivers demanded the service be shut down

Madrid
Taxi drivers demonstrate against Uber and other ride-sharing apps in March

Rome
Taxi drivers shut down the centre of Rome in February

Delhi
Drivers go on strike after the withdrawal of incentives in February

we plan to do the same in Denmark," says Markus Villig, Taxify's founder and chief executive. "Our business model is much more flexible and we adapt our strategy according to each market."

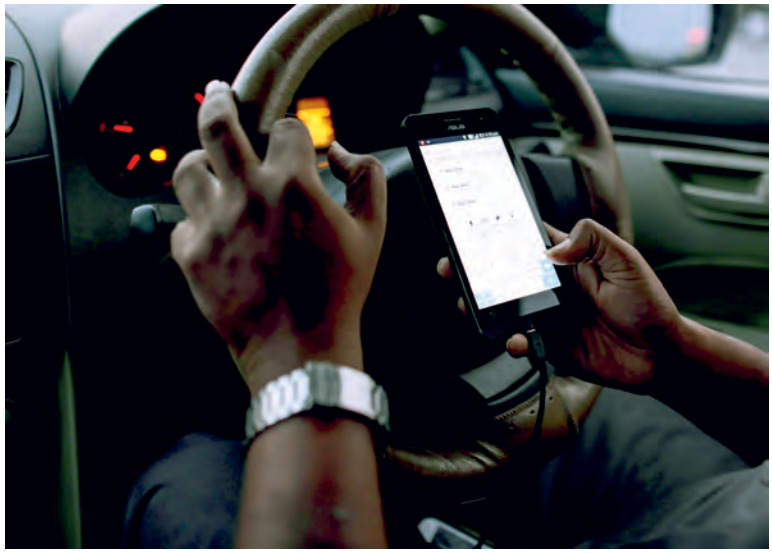
Despite increasing market saturation, Uber's bold vision for the future has proven enough to keep investors interested and to attract new ones. Kalanick has spoken openly about his desire to transition to a fully self-driving vehicle fleet as soon as possible and the company already has several self-driving pilot projects in US locations such as Pittsburgh and Arizona. It seems that cutting out human labour costs entirely might finally bring the prospect of achieving profitability onto the horizon.

"Drivers are a very high cost in the taxi industry so it is logical to assume all taxi operators and even public transport operators are keen on self-driving transport," says Ananda Groag, founder of the mobility arm of ShareNL, an international financial consultancy based in Amsterdam. "Autonomous vehicles should eventually lead to lower cost mobility for users and a better experience, provided that staff shift focus on service."

But with other heavyweights such as Google and Apple working on autonomous vehicle technology, for Uber it's a race against both the clock and its Silicon Valley competitors. Waymo, the mobility subsidiary of Google parent company Alphabet, launched a lawsuit against Uber for stealing trade secrets and filed an injunction intended to halt the ride-hailing giant's work on self-driving cars until the case is over. In response, Uber stated that stopping this research would impede its efforts "to remain a viable business". Put differently, the company has a lot riding on a future without drivers.

"We can only guess how long it will truly take for cars to be fully self-driving and operating all over cities," says Groag. "The most optimistic views are five to 10 years and the most pessimistic is that this will never work in city centres."

Without driverless vehicles, ride-sharing could already reduce road congestion by a factor of three in New York while still serving the same number of passengers, according to a study released in January by the Massachusetts Institute of Technology. The researchers' algorithm found that 3,000 four-passenger cars could meet 98 per cent of the city's taxi demand while still achieving an average wait time of less than three minutes. Beyond all the hype, technology with the ability to enable this – in other words, apps like Uber – is an important factor in the strive towards a healthier, more sustainable future and more liveable urban environments.



Top: *For Uber it's a race against both the clock and Silicon Valley heavyweights like Google, who are developing their own driverless cars*

Above: *A driver heads to a pick-up*

"Today ride-sharing is only two per cent of urban transport in most cities around the world but in general, it will definitely become more popular," says Villig. "In a few years we hope our company will be a strong alternative to public transport and owning personal cars."

The art of ride-sharing is definitely an important part of tomorrow's transport but whether Uber itself is a key component for the future may depend on whether it can crack the formula for self-driving cars before somebody else does. Given their level of venture capital funding, provided the flow of money continues, this could be entirely possible.

Will a combination of scandalous behaviour and financial losses soon stop Uber's rise? It seems unlikely. As Groag says: "Negative publicity is also publicity. While some people have been [posting] #deletinguber, my guess is that the majority do not care, or at least not enough to stop using the app."