# A study on Business model adopted by UBER to disrupt the Taxi Industry

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# Background

Uber was founded in 2009 at San Francisco by CEO Travis Kalanick and Garrett Camp. They devised the software app that enables the system to work, recruited drivers in San Francisco and launched the site in 2010. Since then, Uber has spread to 250 cities throughout the world, constrained only by legal and regulatory challenges as traditional taxi drivers fight a rear-guard action, and a handful of imitators who got in first in a few cities, notably London. Although the regulatory issues are serious, the new way of catching a cab seems set to kill traditional age-old taxi cab system to crumble and die in cities around the world.

## What value proposition is being created by the firm?

**Uber offers the following benefits to the riders**

- **Simplicity and convenience.** The riders can easily book a ride using the Uber mobile app. The driver comes to the pick-up location and the rider can track the approaching driver over the map on the mobile app.
- **Safe pickups.** When matched with a driver, a rider can see the driver's name, license plate number, driver's photo, and driver's rating score. This helps the riders know who will be coming to pick them up.
- **Several car options.** The riders can choose from several car categories depending upon their budget. Some of the categories are: uberX, UberXL,

UberSELECT, and UberBLACK. In some categories, the fare is even lesser than the normal taxi fare.

- **Cashless payments.** The rider's credit card is charged at the end of the journey and the bill is sent via email.
- **Anonymous feedback.** After every trip, a rider can rate the driver and provide anonymous feedback about the ride.
- **Consistent and professional experience.** The Uber experience is consistent across the globe. Uber encourages drivers to provide high quality of services in order to receive higher ratings from the riders.
- With Uber now customers need not wait for a taxi for long times.
- Customers get free rides on certain occasions and discounts from time to time.
- Prices for rides are lesser than the normal taxi fares.

**Uber offers the following benefits to the drivers**

- **Flexible timings.** Uber drivers can work when they want to work and how much they want to work.
- **Incentives.** If Uber drivers work for certain number of hours a week or complete certain number of rides, then they can get assured income or bonuses. Uber also provides referral bonuses to them when they introduce new drivers.
- **Distance+Time based fare formula.** If the traffic slows, the drivers get extra money for the ride because Uber uses both distance and time in the fare calculation formula.
- **Make more money with surge pricing.** In the situations of high demand and low supply (such as during weekend nights or bad weather), Uber automatically increases the fares. This helps drivers make more money for the same distance.

- **Cashless transactions.** Uber automatically charges rider's credit card upon the completion of the trip. So, Uber drivers in most cities can avoid the hassle of carrying cash and making change.
- **Timely payments.** Uber makes payments to the drivers every week directly into the driver's bank account.
- **Driver feedback.** Uber provides a two-way rating system. Drivers can also rate the riders after every trip. Riders who violate Uber terms of service can be prevented from using Uber.
- **Optimised use of vehicle.** Drivers need not wait in a taxi stand waiting for customers. Uber assigns customers to the taxis through their technology driven software/ apps.

## What is the nature of the innovation in the product, service, or offering?

**What has made Uber so successful is the fact that the revenue model of Uber is as unique as their business model. It can be explained as:**

## <u>Solved the problem with local Taxis</u>

Earlier, people had to stand on the street side and wave their hand in order to signal a taxi to stop or go to nearby taxi stand. The wait time, the inconvenience and high rates were a problem for everyone. Quite a few taxis were available and drivers / taxi companies used to charge whatever they thought was right. There was no control on prices and people were left with no other option. Apart from this, the situation was worse during the peak hours as it was quite hard to find an empty cab.

Uber recognised the ongoing problem in regard to booking a taxi and gave a technological solution through a mobile app. The solution to book a cab by tapping a smartphone brought a revolution in the taxi industry. Uber app was officially launched in 2010 and soon became popular due to the value it provided to people.

## Different cab models to cater to everyone:

Uber has not limited itself to a particular segment of cars or to a particular segment of people. There is Uber X, Uber Black for those who love to travel in a black car, Uber Taxi for those looking for cost-efficient solutions and Uber SUV for those who want luxury.

Uber announced a carpooling service called UberPool at the start of August 2014, after a beta testing phase in the San Francisco Bay Area. UberPool matches riders with another rider who is traveling in the same direction—the app will share the first name of the other rider and the planned route. The price for this service is less than all other Uber service levels.

## Surge Pricing Technology:

Variation in cab fares according to situation is an important aspect of Uber's business model. Whenever the demand increases, per mile prices are automatically increased. The new price depends on the number of available drivers and the number of requests made by people who want to travel. Uber has applied for a price surge technology patent in the US.

## Other Uber rides:

Uber has come a long way from cabs. It now offers boats, helicopters as well as some other transportation means on demand. Uber launched a motorcycle-pickup service in Paris, a delivery service in San Francisco, and an ice-cream-truck-delivery service in 7 other cities. However, these means are

available in selected geographical locations but it has led Uber to add new streams of revenue into its business model.

In July 2014, Uber partnered with Blade to offer "UberCHOPPER" helicopter rides from New York City to The Hamptons for $3,000 each, including during Independence Day.

in 2016, the company partnered with Airbus to test UberCopter, a $63 Uber helicopter service, in São Paulo, a city famous for its extreme traffic congestion. The test was a one-month trial.

Uber has also provided helicopter service for specific events, including the Cannes Film Festival and Sundance Film Festival with flights from Salt Lake City International Airport to Park City, Utah

In June 2015, in Istanbul, Uber launched a water-taxi service called UberBOAT, allowing users to travel by Beneteau boats across the city's central Bosporus strait.[91]

During Miami Art Week in December 2015, UberBOAT offered yacht rides across Biscayne Bay for $35 for a party of up to 6 people.

In April 2016, UberBOAT offered free rides across Baltimore harbor.

## How is this value proposition unique, innovative, or disruptive?

Uber used a simplified business model to disrupt the Taxi Industry.
On a snowy Paris evening in 2008, Travis Kalanick and Garrett Camp had trouble hailing a cab. So they came up with a simple idea—tap a button, get a ride.

Customers can use the uber app in their smart phones and just by tapping a button on the phone the customer is able to book a vehicle. The customer gets all required details such as the name and contact number of the driver, the vehicle number as well as the estimated trip cost.

The customer can track the driver/ vehicle as he arrives to the customer location. The driver can also track the exact location of the customer and reach his exact location on time.

The only requirement for driving for Uber, other than appropriate age, health, car age and type, and ability to drive, is passing a background check. Both a smartphone, called a "device" by Uber, and a vehicle.

In September 2016, Uber rolled out a new feature to some drivers that requires drivers to take selfies before accepting ride requests. The feature is called "Real-Time ID Check" and is meant to prevent fraud and protect drivers' accounts from being compromised

Uber business model had a rating system in place for drivers right from beginning, where a customer can rate the driver after his ride which provide a feedback to uber on the performance of drivers associated with uber and take corrective actions.

Uber divides the share usually by giving 80% to the driver and 20% to Uber that lets the drivers earn far more better than the traditional taxi services.  It is believed that Uber will reduce its profit percentage in all the city it operates in future.

Other advantages of Uber is that ordering is made very simple without any effort, vehicle types can be chosen as desired, simplified payment process, a transparent pricing and an accurate fare estimate for each trip makes traveling a better experience.

The passenger feels safe and secure as the map allows tracking, and offers automatic e-receipts. With all the above mentioned benefits, Uber has made a benchmark in the taxi industry.

Overall Uber has been a pioneer in the sharing economy and the changes in industries as a result of the sharing economy has been referred to as "Uberification" or "Uberisation"

Valuation of Uber as in Dec' 2015: 68 Billion USD (Larger than GM, Ford, Honda – Uber took five and a half years to leapfrog the valuation of 107 years old GM).

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# Strategic Use of IT

- How are information technologies being used to create this value proposition?

The riders need to download and install the uber mobile app and provide the requested details (including the credit card details) during the sign-up process. Drivers install driver-version of the Uber mobile app to accept requests from the riders. Once both driver and rider are registered with the Uber platform, they can communicate.

The use of technology to match the rider to appropriate driver/ vehicle.

1. When the rider needs a ride, the rider places a request to the Uber platform via the mobile app.
2. Uber broadcasts the information about the rider request to all the drivers in proximity to the rider. Uber detects the drivers car location through the GPS technology.
3. If a driver is interested in delivering the ride, the driver accepts the request.
4. Uber sends the driver details to the rider.
5. Driver proceeds towards the rider location, picks up the rider, and delivers the ride.
6. Once the ride is complete, Uber automatically charges the rider's credit card.

The Uber blog announcement offered riders the possibility of reducing their journey costs by 20-50%, explaining: "On any given day, the vast majority of UberX trips in NYC have a 'lookalike' trip—a trip that starts near, ends near, and is happening around the same time as another trip".

In 2015, Uber CEO Travis Kalanick spoke about his desire to eventually move to using self-driving cars for Uber vehicles. By May 2015, the company had hired many researchers from the robotics department of Carnegie Mellon University and established Uber's Advanced Technologies Center the Strip District, Pittsburgh.

On September 14, 2016, Uber launched its first self-driving car services to select customers in Pittsburgh, including Pittsburgh Mayor Bill Peduto. Uber has a fleet of Ford Fusion cars each equipped with 20 cameras, seven lasers, GPS, lidar and radar equipment. These enable the car to create a three-dimensional map utilizing landmarks and other contextual information to keep track of its position.

In November 2015, Uber signed a global partnership deal with Dutch satellite navigation company TomTom to provide maps and traffic data for the Uber driver app across 300 cities.
In September 2016, Uber began mapping UK city streets in an effort to identify the best pick-up and drop-off points. The lift-sharing firm plans to extend its mapping activities to other British cities including Manchester, Birmingham and Leeds.

To get their first customers, Uber took to social media and other mass marketing means. It offered discounts, free rides and rates that were too less as compared to other cab services in the city. The first customers for Uber were those who enthusiastically wanted to try the new service.

# Revenue and Profit Drivers

- How is the firm likely to generate revenue through this innovation?
- What is the basis of its profitability?

Uber makes money of lot of ways, following are some of ways.

1. Trip Commissions.
2. Keeping money receivedfrom customer in bank deposits for a period of 7-10 days (rolling interest is huge for Uber).
3. Listing Fee (Basically for the driver to work with them).
4. Fleet on Lease of vehicle to drivers.

Get the Uber Drivers cars on loans (basically they act as a DSA for Banks and Lending Companies and earn commission in between).

**Commission from the total Fare of the Trip:**
The most basic outline of Uber's Revenue Model will be as simple as "**X% Commission from the total Fare of the Trip**" X depends on the age and maturity of the market e.g. Ranges from 5% – 20% depending on the age of the market i.e. when was the service launched or when did the driver join the team etc. Here is the Exact Break-Up of the Total Revenue Lines the company Uses.

Please Note: There are 2 Apps being used simultaneously while performing the business right at Uber – One is used by the Cab Booking Consumer and the second is used by the Request Completing Driver called User App and Driver App Hereon.

Once a trip is ended, the customers account / credit card / wallet is charged with the entire trip fare.

The Trip fare is a combination of:

- Travel Time (In Minutes) : Uber charges Local Currency per Minute of Travel after an initial free X minutes (varries as per the country and type of cab)
- Distance Cost : Uber charges Local Currency Per KM of Travel after an initial fixed fare Distance (varies as per the country and type of cab)
- Waiting Time : In case you made the driver wait additional waiting time charges levied
- Taxes as applicable in that country

The Trip fare once deducted is credited into the driver's account under the head of the trip number.

Uber deducts the Taxes charged to consumer first, then its commission percentage, then applicable income tax on the balance amount and remits the rest of the amount to the drivers bank account at regular intervals (3-7 Days ).

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- Assuming Travel Cost Per Minute : 5 INR (Travel time 40 minutes)
- Assuming Travel Cost Per KM : 15 INR
- Assuming Service Tax @ 14.5% (its 15% now, god knows how many more time I will have to edit this )
- Assuming Total Travel : 30 KM, (First 5 KM @ 100 INR)
- Total Fare : 100+ 40*5 (Assumption 1) + 25*15 (Assumption 5 &2) = 100+200+375 + ST = 675 * 1.145 = 773 INR
- Uber's Cut – 675 * 20% = 135 INR + 98 (ST – Payable to Government)
- Driver's Cut – 773-135-98 = 540 INR Less 10% TDS (As per Indian Government Laws) = 486 INR

This is the primary revenue line.

- Uber earns Revenue from Car Type Trips

Each Country Uber defines the type of Cars that it will call its Sedans, Compact Cars, SUVs etc. The Per KM Waiting time and Per KM charge along with initial charge varies with the type of car chosen at the time of booking.

- Revenue Earned from Passenger Type Trips

In some countries Uber gives options like Uber for Kids, Uber for Senior People, Uber for Single Ladies travelling late at Night etc at varying prices whenever required.

- Revenue Earned from "Surge Pricing" Trips
- Whenever the demand of cabs nearby a customer(s) outruns that of the supply or the number of cabs nearby the prices shoot up according to a predefined algorithm for the same at the backend. For e.g. If 100 People simultaneously trying to book a cab out of available 10 cabs nearby them at the same location the price would shoot up in multiple of base prices. The multiple can be anything from above 1 to 4-5 etc. In this method the driver gets the standard rate and Uber makes the differential.

  From the e.g. in 1st Revenue Line the total fare comes to 773 INR, assuming a surge pricing factor of 2 – the total debit to the customer would be 773 * 2 = 1546 and the driver would make the same amount as before the government would make twice the amount of service tax and Uber would make = 1546 – 540 – 196 (ST) = 810 INR.

# Nature of the Innovation

- What is the likelihood that this innovation will be successful?

There's no doubt in the fact that Uber has brought a revolution not just as a taxi company but as a business model where businesses reach out to serve customers at their location.

Uber's innovation will be successful due to following reasons:

The following customer segments will increase over the time due to traffic congestions, lack of adequate public parking spaces in the growing cities.

Customers who:

- Do not own a car.
- Do not want to drive themselves to a party or function.
- Like to travel in style and want to be treated as a VIP.
- Want a cost-efficient cab at their doorstep.

- Will it have a disruptive effect on the industry? If so, how will the disruption occur?

Uber's business model is a disruptive effect on the Taxi Industry due to following reasons.

Customers can use the uber app in their smart phones and just by tapping a button on the phone the customer is able to book a vehicle. The customer gets all required details such as the name and contact number of the driver, the vehicle number as well as the estimated trip cost.

The customer can track the driver/ vehicle as he arrives to the customer location. The driver can also track the exact location of the customer and reach his exact location on time.

The only requirement for driving for Uber, other than appropriate age, health, car age and type, and ability to drive, is passing a background check. Both a smartphone, called a "device" by Uber, and a vehicle.

Flexible timings for drivers. Uber drivers can work when they want to work and how much they want to work.

Several car options to customer/ riders. The riders can choose from several car categories depending upon their budget. Some of the categories are: uberX, UberXL, UberSELECT, and UberBLACK. In some categories, the fare is even lesser than the normal taxi fare.

Cashless payments for both customer as well as drivers. The rider's credit card is charged at the end of the journey and the bill is sent via email.

Simplicity and convenience for both customers as well as drivers. The riders can easily book a ride using the Uber mobile app. The driver comes to the pick-up location and the rider can track the approaching driver over the map on the mobile app.

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