Uber Technologies Inc.: Managing Opportunities and Challenges

INTRODUCTION

Uber Technologies Inc. (Uber) is a tech startup that provides ride sharing services by facilitating a connection between independent contractors (drivers) and riders with the use of an app. Uber has expanded its operations to 58 countries around the world and is valued at around $41 billion. Because its services costs less than taking a traditional taxi, in the few years it has been in business Uber and similar ride sharing services have upended the taxi industry. The company has experienced resounding success and is looking toward expansion both internationally and within the United States.

However, Uber’s rapid success is creating challenges in the form of legal and regulatory, social, and technical obstacles. The taxi industry, for instance, is arguing that Uber has an unfair advantage because it does not face the same licensing requirements as they do. Others accuse Uber of not vetting their drivers, creating potentially unsafe situations. An accusation of rape in India has brought this issue of safety to the forefront. Some major cities are banning ride sharing services like Uber because of these various concerns. Additionally, Uber has faced various lawsuits, including a lawsuit filed against them by its independent contractors. Its presence in the market has influenced lawmakers to draft new regulations to govern this “app-driven” ride sharing system. Legislation can often hinder a company’s expansion opportunities because of the resources it must expend to comply with regulatory requirements.

Uber has been highly praised for giving independent contractors an opportunity to earn money as long as they have a car while also offering convenient ways for consumers to get around at lower costs. Its “Surge Pricing” technique has been criticized for charging higher fares during popular times, but it is also becoming a model for other companies such as Zappos in how they compensate their call center employees. The biggest issues Uber faces include legal action because drivers are not licensed, rider and driver safety, protection and security of customer and driver information, and a lack of adequate insurance coverage. To be successful Uber must to address these issues in its marketing strategy so it can reduce resistance as it expands into other cities.

BACKGROUND

In 2009 Travis Kalanick and Garrett Camp developed a smartphone application to connect drivers-for-hire with people needing rides to a destination in their city. This innovative service was originally founded as UberCab Inc., a privately held company. It was renamed Uber Technologies, Inc. in 2010. Co-founders Kalanick and Camp designed the mobile-app for iPhone and Android smartphones, enabling customers to get an estimated time of arrival from the driver on their smartphone with the use of an integrated GPS system.
Consumers liked the Uber app because of its convenience and ease-of-use. After the mobile-app is downloaded to their smartphones, passengers can pay for the rides-for-hire service through a third party, known as a Transportation Network Company (TNC), using the UberX platform that scans or takes a picture of their credit card with the smartphone’s camera. Uber does not maintain automobile inventory for drivers, such as a fleet of taxicabs or limousines. Instead, each driver-for-hire supplies his or her own personal automobile, gas, insurance, and maintenance of his or her own car. Drivers can drive their own cars where they want when they want, providing them with significant freedom to run their own small businesses. A surge pricing model is used during times of peak demand. While Uber initially charged about a 20 percent commission, it later introduced a new tiered structure in some cities that charged different commission rates depending upon the number of hours worked. For instance, in San Francisco a driver pays Uber a 30 percent commission on the first 20 rides in the week, 25 percent on the next 20 rides, and 20 percent on rides after that.

Due to the increased demand in the rides-for-hire industry, Uber predicts $10 billion in revenue, with an estimated total valuation of $40 billion. Uber recently relocated to new headquarters in San Francisco, providing office space for nearly 700 employees. In the near future, it plans to expand to two 10-story buildings, increasing their total square feet of office space utilization to more than 700,000 square feet.

Uber Technologies, Inc. provides rides-for-hire services to 57 countries and more than 250 cities worldwide. Uber maintains a presence in major U.S. cities including Los Angeles, San Francisco, New York City, Chicago, Washington DC, and Boston. These cities have the most driver-partners, although many other cities also have driver-partners. Uber technology-based products are available under these various brands: Uber, UberX, UberXL, UberPOP, UberBLACK, UberSUV, UberTAXI, UberLUX, and the logistics-request brands referred to as UberRUSH, UberFRESH, and UberEATS. Uber has also upgraded its current navigation service (Google and Apple) with deCarta Mapping Company. This new mapping system will continue to improve Uber's navigation and location technologies.

**UBER'S MARKETING STRATEGY**

Like all companies, Uber must understand its target market and maintain a strong marketing mix to be successful. Due to its technology, Uber does not have as many constraints as taxi cabs, although it has encountered regulatory obstacles and some public resistance. The Uber business model takes advantage of the smartphone technology of consumers and links them with independent drivers as their cabs. This provides a more potentially efficient and less expensive way to purchase transportation.
Uber’s products are all digital. Consumers download Uber’s app onto their smartphones. When they want to request a ride, they can use the app to contact a driver in the near vicinity. The Uber app allows consumers to track the location of the car and alerts them to when the car arrives.

Uber offers a few different services to customers based upon their preferences. Its most used service is UberX, the low-budget option. Drivers use their own vehicles to transport passengers. UberTAXI is an app that connects licensed taxi drivers to passengers. UberBLACK is for consumers who desire to have their own private driver in a high-end sedan. UberSUV connects users with SUVs, while UberLUX is the most expensive service with luxury vehicles. UberXL is similar to UberSUV but is 50 percent less. Other low-cost options include UberPool, which allows passengers to share rides and split the costs, and UberPOP, a service costing less than UberX because it utilizes non-professional drivers and smaller cars. Despite the opportunities UberPOP provides, its use of non-professional drivers have led to regulatory issues in different countries.

Uber is also attempting to expand into other services. Its UberRUSH app launched in New York is used for package deliveries. UberFRESH and UberEATS are meal delivery apps that partner with local restaurants to offer meals to consumers within 10 minutes. These new services are allowing Uber to branch out and expand its services into different businesses.

**DISTRIBUTION**

Uber operates in more than 250 cities in more than 57 countries. One major reason Uber is so popular is because its app allows users to contact any drivers in the near vicinity. Drivers use the Uber app to provide them with directions. It is estimated that Uber has more than 162,000 “active” drivers in the United States that make at least four trips. The number of drivers has doubled every six months for the past two years. Los Angeles, San Francisco, New York, Chicago, Washington D.C., and Boston have the most drivers in the United States. Most Uber drivers offer their ride sharing services on a part-time basis.

To be successful, Uber engages in strategic partnerships with other companies. In the United States it has partnered with American Express. Card members enrolled in American Express’s Membership Rewards program can earn points with Uber for rides. Strategic partnerships with local firms are especially important as Uber expands internationally because it allows the company to utilize the resources and knowledge of domestic firms familiar with the country’s culture. Uber has partnered with Times Internet in India, Baidu in China, and AmericaMovil in Latin America.

**PRICING**

Uber uses its app to determine pricing. Once the passenger completes his or her ride with an Uber partner–driver, the person’s credit card is charged automatically. Fees charged for speeds over 11 miles per hour are charged by the distance traveled. Uber operates on a cost leadership basis, claiming that it offers lower rates than taxis. However, the app OpenStreetCab suggests that Uber might be more cost-efficient only when the fare is more than $35.
Uber uses an algorithm to estimate fees charged when demand is high. Called surge pricing, Uber has even applied for a patent for this type of system. This “peak pricing” strategy is not too different than when utilities or flights charge higher prices when demand is high. Passengers are alerted during times where the price is higher. However, the extent of the pricing increase has been questioned as some consumers believe Uber uses this high demand to “price gouge” passengers.

In some situations, Uber’s surge pricing has led to considerable criticism. During one New Year’s Eve, pricing surged up to seven times the normal price. During a hostage crisis in Sydney, Australia, Uber charged as much as four times the normal price as an influx of people struggled to evacuate. During ice and snow storms surge pricing may be applied. Uber responded by claiming its price hikes encouraged more drivers to pick up passengers in the area, but consumers were outraged. Within an hour Uber agreed to refund users in the area who paid the higher prices. In extreme shortages, prices are sometimes hiked to as high as 6-8 percent. On the one hand, it can be argued that surge pricing increases the number of drivers during times of high demand. It is estimated that the number of drivers increases by 70 to 80 percent due to surge pricing. On the other hand, consumers believe this is a form of price gouging and that Uber capitalizes on emergency situations such as the Sydney hostage crisis. Uber has to reconcile these different situations in order to create a pricing strategy considered fair by its users.

PROMOTION

Uber has engaged in a number of promotional activities to make its brand known. Often it adopts buzz marketing strategies to draw attention to its services. For instance, to celebrate National Ice Cream Month one year Uber launched on-demand ice cream trucks in seven major cities. In one promotion Uber partnered with General Electric to offer free DeLorean rides to San Francisco users reminiscent of the movie Back to the Future. Uber also uses promotion to portray its benefits compared to its rivals. For instance, Uber assumed a combative advertising approach to its major rival Lyft through a Facebook ad campaign. Uber advertising often stresses the convenience and low cost of its ride sharing services.

However, like all companies Uber must take care to ensure that its advertising could not be construed as misleading. A lawsuit was filed in U.S. District Court in San Francisco stating that Uber violated the 1946 Lanham Act that prohibits false advertising. Taxi companies claimed, for instance, that Uber’s drivers do not have to undergo fingerprinting in California as part of background checks, and yet it uses advertising such as “the safest ride on the road” and sets “the strictest safety standards possible,” as well as Uber's $1 “Safe Rides Fee.” According to the taxi drivers, these deceptive advertising practices take customers away from their services and are therefore leading to economic harm.

UBER FACES CHALLENGES

Uber faces a number of challenges including internal struggles, legal and regulatory challenges, and global issues. In the United States, major cities are considering regulating Uber. However, it faces...
even more challenges as it expands internationally as some countries are opting to ban Uber or certain services that it offers. Uber will have to adapt its marketing strategy to address both domestic challenges within the United States as well as to the various laws enforced in different countries.

INTERNAL CHALLENGES—DRIVER SATISFACTION

Uber operates in an industry where trust between strangers is vital. This trust ensures a safe and comfortable ride for both passenger and driver. Uber has developed a rating system to help assure this trust and reliability between passengers and drivers, called a rideshare ratings system. Rideshare rating systems pose a unique challenge for Uber because of the way they are set up and the level of rider objectivity. Uber’s insistent policy of maintaining a five-star fleet can put drivers at a disadvantage. Uber rivals have similar policies; for instance, Lyft tells customers that anything less than 5 stars indicate unhappiness with the ride.

Low driver scores can mean drivers are forced to take remedial classes where they learn about safe driving techniques and driver etiquette. Those who fail to increase their scores risk suspension or permanent deactivation. Because consumers have different views of what constitutes quality, it can be argued that Uber drivers are placed at the mercy of the consumer’s mood.

Drivers have also expressed unhappiness with Uber’s pay. Uber will often lower fare rates in order to gain a competitive advantage in different markets, which cuts into driver earnings. Additionally, drivers are driving their own cars and spending their personal funds on upkeep and insurance. In 2014 drivers working with Teamsters Local 986 launched the California App-based Drivers Association (CADA), an Uber drivers’ Union. More cities have started their own unions.

Uber has begun to guarantee hourly earnings of $10 to $26 per hour for its drivers, but to qualify drivers have to comply with Uber’s rules including accepting 90 percent of ride requests, doing one ride per hour, and being online 50 out of 60 minutes. Critics say these restrictions effectively keep drivers from working for other ride sharing services. Uber drivers are independent contractors and not employees of the company, so they have the option to work for competitors. However, these new criteria may be a way to keep drivers working for Uber and no one else.

This independent contractor status has also created controversy for drivers. Drivers claim that Uber’s requirements make them more employees than independent contractors. For instance, Uber has certain rules about types of car and soliciting business. Disgruntled drivers have staged protests and filed lawsuits against the firm.

In 2015 Uber faced a setback when a California labor commissioner ruled that an Uber driver qualified as an employee. The commissioner argued that because Uber was “involved in every aspect of the operation,” including setting fares and nonnegotiable fees, it had enough control over the driver for her to qualify as an employee. Uber was ordered to pay the driver $4,100 to cover mileage and tolls. Uber continues to maintain that its drivers are independent contractors and is still fighting against other lawsuits in California. While this does not necessarily mean all Uber
drivers will qualify as employees under the court system, it does set a precedent for drivers in other states to file lawsuits. If Uber encounters more issues in this area, it might have to alter its relationship with drivers and give up some control so its drivers will fall beneath the employee threshold.

LEGAL CHALLENGES

Regulation is a constant challenge for Uber. As it becomes more popular, Uber will become subject to more legal and regulatory requirements common to other big businesses. For instance, the Americans with Disabilities Act is becoming a challenge for Uber. Since the Uber service is usually operated within a driver’s personal vehicle, many of the vehicles are not wheelchair friendly.

Taxi lobbies are also pressuring local governments to block Uber in many cities. They claim that Uber hurts their businesses and has an unfair advantage as Uber drivers are not subject to the same restrictions as licensed taxi drivers. Cities have taken action against Uber by blocking ordinances that provide a path to legalization for mobile ride-booking apps and issuing cease-and-desist orders. These types of legal challenges will be discussed in more detail in the global section. Some U.S. airports such as Salt Lake City have restrictions on Uber.

In addition to having an unfair competitive advantage, another accusation levied against Uber is that it does not adhere to proper safety standards. Allegedly, Uber drivers were involved in three rapes in Delhi, India; Chicago; and Boston. These rapes have harmed Uber’s reputation and cast its safety into serious question. A lawsuit was filed against Uber in San Francisco for the wrongful death of a 6-year-old girl. The lawsuit alleged that a driver was distracted using the UberX app when he struck and killed the girl. Uber responded by claiming that the driver was not an agent for Uber and was not en route or transporting a passenger at the time of the accident. Once again, this brings up the issue of how much Uber should be responsible for its drivers as independent contractors.

To reestablish its reputation for safety, Uber has added a “safe ride checklist” to its app which is a pre-pickup notification that encourages riders to confirm the license plate number and verify their driver’s name and appearance before entering a vehicle. They have also added a team of safety and fraud experts to authenticate drivers and a dedicated incident-response team to address rider issues in India.

Insurance is another criticism. Although Uber’s website claims that it offers $1 million in liability insurance plans for its drivers, some states are issuing warnings stating that rideshare insurance may not cover them should there be an accident. This is because personal cars for commercial purposes. Many states in the United States are reconsidering insurance requirements in light of this issue, and insurance firms such as Geico and MetLife have begun offering insurance packages for ridesharing services.

GLOBAL EXPANSION
Uber has adopted the motto “Available locally, expanding globally” to describe the opportunities it sees in global expansion. International expansion is a major part of Uber’s marketing strategy, and it has thus far established the ride sharing service in 58 countries. Uber is correct in assuming that consumers from other countries would also appreciate the low cost, convenience, and freedom that its app services offer.

Even though it is successful in some countries, many countries have regulatory hurdles that have caused trouble for Uber to successfully operate in these areas. Perhaps the biggest is failure to obtain licenses even though they offer many of the same services as a taxi. Exhibit 1 highlights all countries where a) Uber is driving with no restriction, b) Uber experiences legal problems, is in a legal dispute, or threatened by a ban, or c) Uber has been banned. As it can be seen, the most restrictions are outside the United States.

Exhibit 1

Many, if not all, of the instances involve banning Uber or Uber services due to the lack of professional licenses for drivers. For instance, in Taiwan authorities claim that Uber services violate highway laws by not having transport-licenses to operate legally. The ministry of Economic Affairs has looked into the possibility of revoking Uber’s business registration. In Spain, Uber shut
down its ride-sharing service after a judge ruled that Uber drivers are not legally authorized to transport passengers by unfairly competing against licensed taxi drivers. In Australia, Victoria and New South Wales ruled Uber’s app to be illegal due to safety concerns. Police in Cape Town, South Africa impounded 33 cars operating with the Uber app because the drivers did not have a taxi license. Police in Indonesia have been prompted by taxi and transportation operators to investigate whether Uber’s start-up practices are illegal. Bans have also been instituted in France, India, and Germany.

FRANCE  In 2011 Paris became the first city outside of the United States where Uber set up operations. However, an attempt was made to ban UberPOP because drivers do not need to be licensed. French police even raided Uber’s Paris office. A French law was passed mandating that operating a service that connects passengers to non-licensed drivers is punishable with fines over $300,000 and up to two years in prison. Hundreds of Uber drivers in France were issued fines for operating illegally.

Uber challenged that law, claiming that it is unconstitutional because it hinders free enterprise. A French court decided against banning UberPOP and sent the case to a higher court. This has generated strong criticism from taxicab officials in France as they claim that they have to license drivers while Uber is currently free from this restriction.

INDIA  India is Uber’s second largest market after the United States. India rejected Uber’s application for a taxi license. In New Delhi a woman’s rape allegation led to a ban against app-based services without radio-taxi permits in the capital. In response to the alleged rape, Uber began installing ‘panic button’ and tracking features to its app. Uber also began offering its service in New Delhi without charging booking or service fees.

Despite these changes, Uber continued to run afoul of Indian authorities. India asked Internet service providers to block Uber’s websites because it continued to operate in the city despite being banned. However, it did not ban the apps themselves because doing so would require it to institute the ban across the entire country. Uber must tread carefully to seize upon opportunities in India without violating regulatory requirements. This is more difficult as Uber drivers are independent contractors that set their own schedules and make their own decisions about whether to work.

GERMANY  Uber provides its ride-sharing service in Germany's five biggest cities, namely Frankfurt, Berlin, Hamburg, Munich and Düsseldorf. In 2014 Frankfurt’s court filed an injunction against Uber. A nationwide ban was instituted against Uber’s UberPOP services after taxicab operators asked for an emergency injunction, but it was overturned because the judge determined they waited too long to file the injunction.

However, in 2015 a German court banned Uber services if they used unlicensed drivers. Uber argued in court that the company itself is only an agent to connect driver and rider. Rules that apply to taxi services supposedly do not apply, and all services are deemed to be legal, according to Uber. The court ruled that Uber’s business model clearly infringes the Personal Transportation Law, because drivers transport riders without a personal transportation license. The injunction includes
a fine of more than $260,000 per ride for non-compliance. If the injunction is breached, drivers could go to jail for up to half a year, in addition to an imposition of fines. The German Taxi Association (Taxi Deutschland) was pleased with the outcome, claiming that taxi services will remain in the hands of qualified people and keep everyone safer.

Despite the ruling, an Uber spokesperson said that the company will not give up on Germany because UberBLACK and UberTAXI services will remain unaffected by the District Court’s verdict. Both, UberBLACK and UberTAXI are using licensed taxis and limousine drivers.

**UBER ADDRESSES RISKS**

Long term sustainability of Uber depends on managing future risks in four key areas:

Drivers: The number of disgruntled drivers could get out of control if Uber increases its profit share deductions. With recent laws mandating healthcare insurance, drivers may require healthcare coverage. Training programs to improve driving skills could reduce risk from negligent drivers, and decrease liability insurance costs.

Competitors: Uber’s business model can be found in similar rides-for-hire services, such as Lyft, Sidecar, and Curb. More rides-for-hires could emerge, in addition to the everyday competition from taxi-cabs, limos, rental car businesses, air travel, trains, city and chartered buses.

Customer Base: Increasing the demand for rides-for-services is a continuous or future challenge that requires attention primarily to safety improvements and rates that have a cost/benefit to both passengers and drivers. Unpredictable demand is a future risk that could be met with product diversification. Currently, Uber offers technology-oriented products, and it must continue to be competitive in an industry where there is intense competition for rates.

Technology: Customers are wary of downloading apps, and some online businesses have been hacked for credit card information. Uber could upgrade its data-base security system to reduce financial or personal account information risks.

Customer satisfaction: Some customers experience long waits, inexperienced drivers, and even sexual harassment has been reported. Better Business Bureau complaints mainly involve pricing and problems with service. Uber might use the Internet to check consumer complaints and address them to improve customer satisfaction.

**CONCLUSION**

The emergence of Uber has influenced many services to follow the Uber business model. There are similar firms that offer ride sharing services, and there are firms that want to be an Uber-type business in the way they deliver goods and services. For example, Cargomatic has developed an app to help fill space on trucks. Cargomatic, which now operates in California and New York, has been called the Uber for truckers because it connect shippers with drivers who are looking for extra
shipments to haul. This is signaling a shift in the industry in which people are the infrastructure rather than buildings or fleets of vehicles.

Uber faces a number of marketing challenges including regulatory and legal issues both inside and outside of the United States. Laws that protect consumers specifically target taxi services, whereas Uber defines its services as “ride sharing” and Uber as an “agent” of their “individual contractors.” However, many courts do not view its services in the same way and are forcing Uber to comply with licensing laws or stop business in certain areas.

Despite Uber’s challenges, the company has become widely popular among consumers and independent contractors. Supporters claim that Uber is revolutionizing the transportation service industry. Investors clearly believe Uber is going to be strong in the market in the long run.

Uber has a bright future and expansion opportunities are great. It is therefore important for Uber to ensure the safety of their riders and the drivers. They should also adopt controls to ensure that independent contractors using their app obeys relevant country laws. Uber has to address these issues to uphold the trust of their customers and achieve long-term market success.

QUESTIONS

1. What are the ethical challenges that Uber faces in using app-based peer-to-peer sharing technology?
2. Since Uber is using a disruptive business model and marketing strategy, what are the risks that the company will have to overcome to be successful?
3. Because Uber is so popular and the business model is being expanded to other industries, should there be regulation to develop compliance with standards to protect competitors and consumers?

Sources


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