
Case-Uber

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Consider the case of Uber

- **History**

- Founded in 2009 by Garrett Camp and Travis Kalanick as “UberCab”
- Met at LeWeb in Paris, France in 2008, Camp wanted to solve the Taxi problem in San Francisco
- Original pitch split the cost of a driver, Mercedes S Class, and a parking spot with an iPhone app
- January 2010, service was first tested in New York
- Service launched in July 2010 in San Francisco
- From May 2011 to February 2012 Uber expanded into Seattle, Boston, New York, Chicago, and Washington D.C.
- First international expansion in Paris, France in December 2011

Founders

- **Garrett Camp**

- Graduate from University of Calgary, Bachelors in Electrical Engineering and Masters in Software Engineering
- Founder of StumbleUpon, a web-discovery engine which he sold to eBay for \$75 million in 2007
- Also founded Expa in 2013, A startup studio that works to develop and launch new products



- **Travis Kalanick**

- Dropped out of UCLA in 1998, founded Scour Inc. with some classmates
- Founder of Scour and Red Swoosh, peer-to-peer file-sharing companies
- Scour filed for bankruptcy in 2000 to protect itself from a major lawsuit
- Served as the CEO at Uber until mid 2017.
- He was forced out by the board and investors



Early Investors

- Lowercase Capital
- First Round
- Menlo
- Benchmark
- Goldman Sachs
- Google Ventures

The Business Model (in the early years)

- Uber acts as a middleman between drivers and their clients
 - Uber takes 20 percent of each driver's earnings
 - Controls rate and can raise or lower as they please
 - Drivers are responsible for gas and repairs
 - Until March 2014 they were also responsible for insurance, but now Uber does that.
- Clients rate the drivers
 - Ratings encourage competition between drivers
 - Better ratings = more clients = more money
- Drivers also rate the clients
 - Which has led to unfriendly clients being shunned
- Uber's presence has resulted in protests and unionization by drivers in many cities
- Uber does not require drivers to have a commercial license

Business Model Comparison (early years)

Uber

- Company not licensed as taxi company
- Drivers do not need commercial license
- Drivers own cars
- Drivers provide gas and maintenance
- Company provides insurance –since 2014
- Rates are unregulated
- Drivers can refuse clients
- Clients rate drivers online
- Drivers rate clients online

Taxis

- Company licensed by government
- Drivers specially licensed by government
- Company owns cabs
- Company provides gas and maintenance
- Company provides insurance
- Rates are government regulated
- Drivers cannot (legally) refuse clients
- Nobody rates anybody

Early Partnerships

- AT&T
 - Uber app is built into the new AT&T android phones
 - AT&T users will also get discounts
- NFL Players Association
 - Players get \$200 worth of credits
 - The NFL markets Uber as a safe alternative to driving home
- GM and Toyota
 - Financing and leasing deals for Uber drivers
- American Red Cross
 - 20% of total fare will go to Red Cross Disaster Relief Fund

Challenges

- Uber has faced scrutiny over taxi regulation worldwide
 - (AUS, BEL, CAN, GER, POL, ROK, UK, USA, and IND)
 - Taxi service is a highly regulated industry that usually requires licenses and inspections for the cars as well as for the drivers.
 - They also often require special insurance, which Uber originally did not, but now does carry.
- Taxi commissions, drivers, and owners, in many cities have protested
 - Many states and municipalities have sent Uber cease-and-desist letters
 - Including Massachusetts, Virginia, and San Francisco
 - They accuse Uber of using unauthorized measurement methods to charge fares as well as other violations of the Taxi regulations.
 - San Francisco and Massachusetts have since reversed those actions, as national standards were changing and public pressure was put upon officials by Uber users and operators as well as by other entrepreneurial leaders who saw this as an attempt to stifle innovation.
- Uber has also suffered from some adverse public relations
 - Drivers with criminal records
 - Drivers denying service to the disabled
 - Car accidents including those involving pedestrians
 - Founder, Travis Kalanick, pushed out amid accusations of a toxic corporate culture and rampant sexual harassment,

Many have criticized Uber's Ethics

- Used fake code, Greyball, to trick municipalities like NYC that wanted to regulate Uber to hide drivers identities and locations.
- Used social media to create political pressure on regulators.
- Violated Apple's rules by "tagging" iPhones to be able to identify them –even after the Uber App was deleted and the iPhone wiped.
- Was accused of maintaining a climate of sexual harassment at headquarters.
- Travis Kalanick was eventually forced out by investors and the board in June of 2017.

"Uber is grappling with the fallout. For the last few months, the company has been reeling from allegations of a machismo-fueled workplace where managers routinely overstepped verbally, physically and sometimes sexually with employees. Mr. Kalanick compounded that image by engaging in a shouting match with an Uber driver in February, an incident recorded by the driver and then leaked online. (Mr. Kalanick now has a private driver.)"

"The damage has been extensive. Uber's detractors have started a grass-roots campaign with the hashtag #deleteUber. Executives have streamed out. Some Uber investors have openly criticized the company."

"Mr. Kalanick's leadership is at a precarious point. While Uber is financed by a who's who of investors including Goldman Sachs and Saudi Arabia's Public Investment Fund, Mr. Kalanick controls the majority of the company's voting shares with a small handful of other close friends, and has stacked Uber's board of directors with many who are invested in his success. Yet board members have concluded that he must change his management style, and are pressuring him to do so."

New York Times; April 23, 2017

<https://www.nytimes.com/2017/04/23/technology/travis-kalanick-pushes-uber-and-himself-to-the-precipice.html>

A Toxic Corporate Culture at Uber?

- BBC Report: *“Mr Kalanick's reputation for ruthlessness and machismo has led to some deeply uncomfortable reports about the culture inside Uber: with persistent stories about organizational sexism and disputes with drivers over their terms and with local authorities and taxi companies.”*
- As Mark Cuban put it: *“Travis's biggest strength is that he will run through a wall to accomplish his goals, Travis's biggest weakness is that he will run through a wall to accomplish his goals. That's the best way to describe him.”*
 - <https://www.bbc.com/news/technology-40352868>
- Many feel that Uber is just the tip of the iceberg of toxic cultures in startups- particularly in Silicon Valley. This has become an issue of discussion and required a new focus on corporate ethics and governance issues.
 - *“One of Google's new sexual-harassment policies could be the key to changing all of Silicon Valley's bro culture;”* Julie Bort Business Insider Nov. 8, 2018.
 - <https://www.businessinsider.com/googles-new-sexual-harassment-policy-could-change-valley-bro-culture-2018-11>

California and other states rejecting the contractor approach.

- UBER has treated their drivers as contractors rather than employees. This exempts them from many tax issues and certain benefits.
- It places most of the tax liabilities and social security liabilities on the drivers rather than the company.
- UBER (and Lyft and DoorDash etc) got a major win by passing Proposition 22 in the November 2020 election.
- Prop 22: California Voters Give Uber And Lyft A Win : NPR
 - <https://www.npr.org/2020/11/05/931561150/california-voters-give-uber-lyft-a-win-but-some-drivers-arent-so-sure>
- California may not give up. To be continued.

How is it going?

- Uber has expanded rapidly from its founding to 2018
 - In over 100 cities and 70 countries in 2017
 - Market Cap of \$76 billion in the summer of 2018.
 - Constantly looking to expand (Ex: Las Vegas, Daytona, Jakarta, etc.)
 - Due to this growth, competition has grown
 - Uber does not have patents protecting their service
 - Lyft provides almost identical services, just with different apps and prices
 - Another competitor, Sidecar, closed in 2015.
- Because Uber is a strong and well established brand they seem to maintain a solid competitive advantage over other entrants into the industry.
- They have been accused of unfair competition against its competitors.
- Expansion in China failed and they eventually sold to DidiChuxing
- They lost \$2.8 Billion in 2016 -exclusive of the loss in China.
 - <https://www.nytimes.com/2017/04/14/technology/amid-questions-over-its-culture-uber-discloses-robust-financial-figures.html>
- Since 2016 they have continued growing and losing money as we shall see in the following graphs.

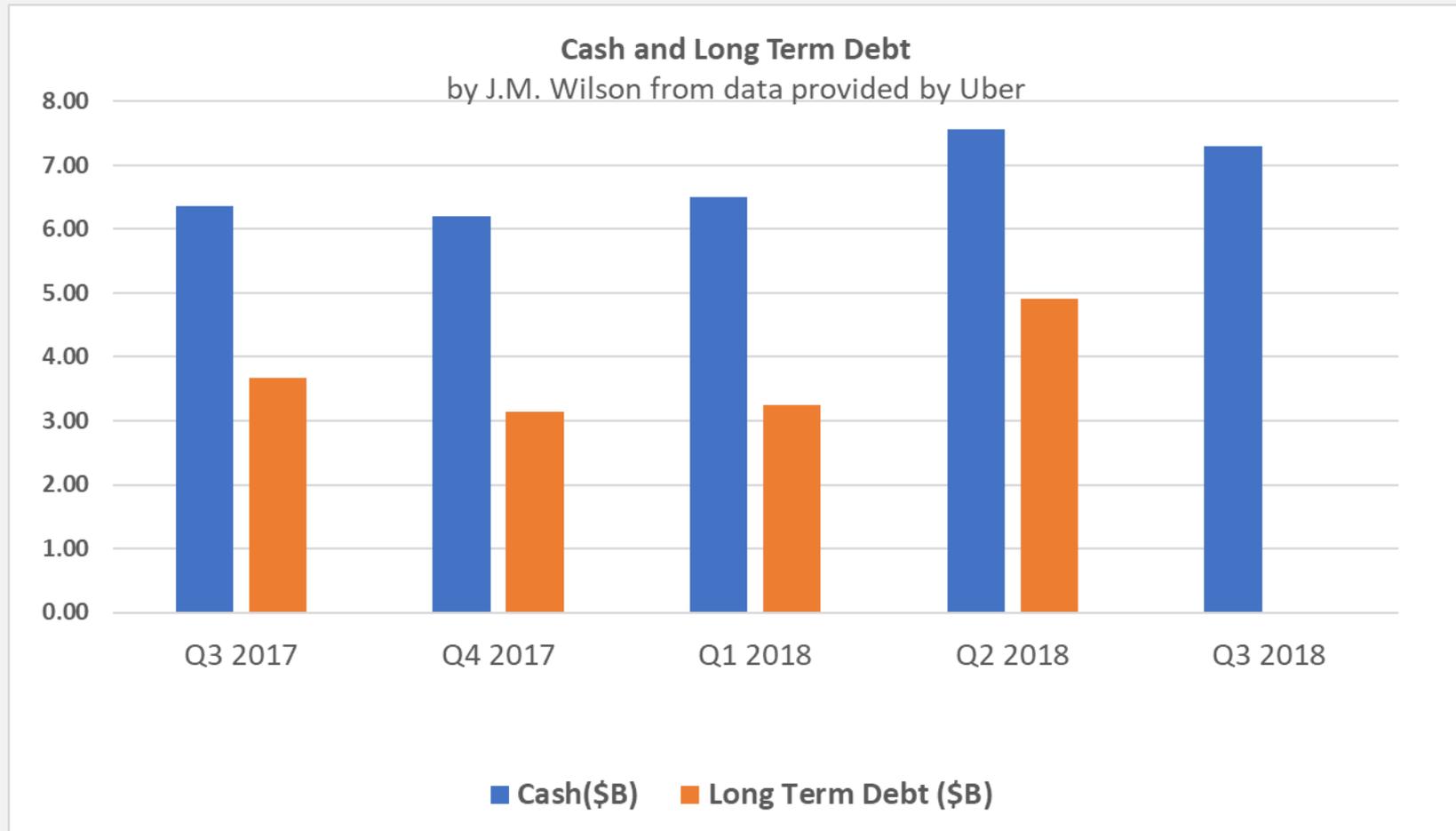
Uber Revenues and Losses Q1 2017- Q3 2018



Graph made by J.M. Wilson from data provided by Uber through public sources. It shows growth in gross revenues (bookings) from \$7.3B to \$12.7 B and slower growth in net revenues from \$1.46B to \$2.95B and continued losses reaching -\$1.07B in Q3 of 2018.

In Q1 of 2018 Uber sold off some international businesses to account for the small profit.

Uber Cash and Equivalents and Long Term Debt



Cash and Long Term Debt graph by J.M. Wilson from data provided by Uber. It shows cash reserves holding fairly steady at about \$ 7 billion due to investor fund raising and debt just under \$5 billion. Uber raised another \$2 Billion in long term debt in Q3 2018, but the last debt value available was in Q2 and stood at just under \$5 Billion.

Uber IPO

- Uber has announced it is planning an IPO in 2019.
- Softbank made an investment in Uber at the beginning of 2018 and that has given them a 15% stake. The agreement requires Uber to do an IPO by September of 2019.
- The Softbank investment indicates a value of \$76 Billion for Uber.
- Uber has suggested that it may move the IPO up to the first half of 2019 due to fears of an economic downturn in 2019. There is also concern that their chief US rival, Lyft, may do an IPO in 2019.
- Uber has also suggested that they do not expect to be profitable before 2021.
- Toyota has also announced it will invest \$500 million in a joint venture with Uber's self driving (autonomous) car efforts.

– <https://www.reuters.com/article/us-uber-toyota/toyota-to-invest-500-million-in-uber-for-self-driving-cars-idUSKCN1LC203>

Uber IPO Completed.

- How the Promise of a \$120 Billion Uber I.P.O. Evaporated

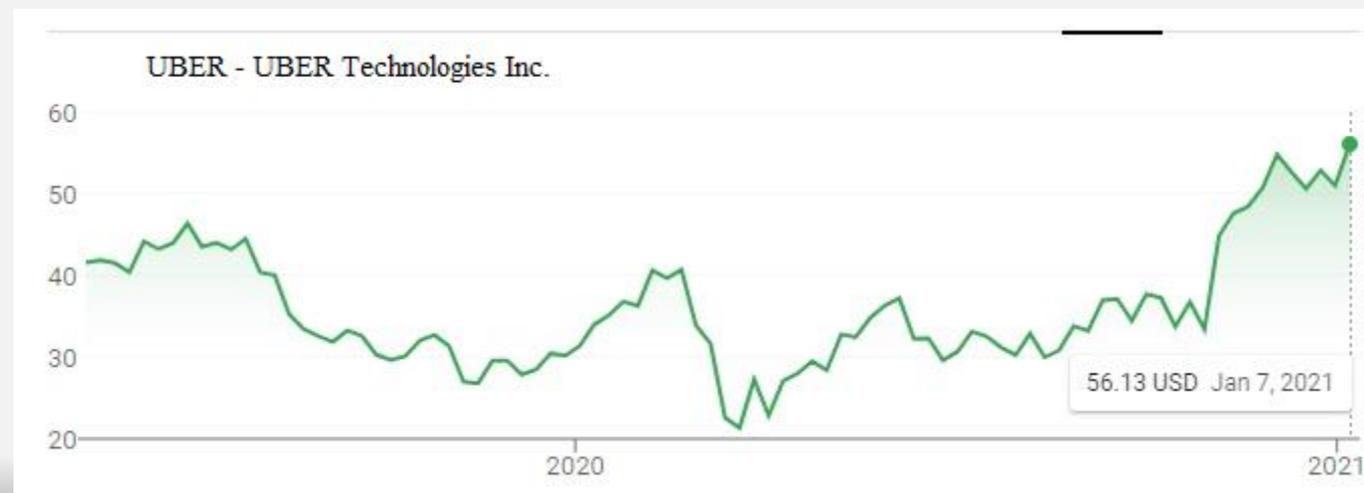
The ride-hailing firm went public last week at \$45 a share and has since dropped to around \$41, pegging Uber's market capitalization at \$69 billion — and officially crowning it as the stock market debut that lost more in dollar terms than any other American initial public offering since 1975. How Uber's offering turned into what some are now openly calling a "train wreck" began with the \$120 billion number that the bankers floated.

- <https://www.nytimes.com/2019/05/15/technology/uber-ipo-price.html>

- The company immediately garnered a valuation north of \$80 billion and then it fell like a stone.

- <https://www.cnbc.com/2019/10/03/the-uber-ipo-changed-everything-for-the-market.html>

- The story since has improved a lot.



Questions

- How did Uber's business model give them an advantage over the early competition? Is this advantage sustainable?
- Uber has raised cash through both equity and debt. The most recent equity event valued them at \$76 billion. The most recent debt offering was at the junk bond level of 8%.
 - Do you think the equity investments make sense? Why or why not?
 - Do you think the debt (bonds) would be a good investment? Why or why not?
- Uber has faced significant challenges due to the ethics and business climate of the company. How do you feel that this has affected the future prospects of the company?
- Uber has faced scrutiny and regulation from governments at various levels. How do you feel that this has affected the future prospects of the company?