

UBER'S JOURNEY IN INDIAN STARTUP ECONOMY: OPPORTUNITIES & CHALLENGES DRIVING FROM SAN FRANCISCO TO INDIA

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Abstract:

India is blooming with taxi business today, there is a new start up offering efficient cab service to the citizens operating in urban and rural lifestyles. Taxi revolution has taken place in India, in this context Uber has played a vital role in it. In startup economy here, mobile internet services has taken a new flair and given service platform to Uber. Despite of this, Uber is facing lots of challenges in startup economy. In this Paper, we are discussing about the challenges faced and opportunity won by Uber.

Keywords: Uber, Ola, Startup Economy, SWOT Analysis, Fintech.

Introduction:

Startups have been the flavor of the season over the last few years for the Indian markets. This has resulted into the emergence of a number of home grown unicorns across the country. One of the major contributors leading to this development has been the mega funding that has been ploughed into most of these unicorns between the period 2007 and 2017. This has been in line with the global trend dominating the space. Internet penetration and its increasing importance have driven most of the businesses.

On account of the consumer demographics, with China being out of bounds, India offers the largest pie of investment opportunity that the world is eyeing. This is despite the multitude of operational, regulatory and taxation issues that surround the business running environment in India.

However, 2015 has turned out to be a year offering a bit of a reality check to one and all and redefined the dynamics to a great extent. The year also set the tone for the next stage in the evolution of the startup ecosystem but the larger problems plaguing the businesses, such as the unorganized and fragmented Indian market, lack of clear and transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure, complications in doing business, etc. are at least now being identified as issues that need to be addressed. The framework and course of regulations need to be updated and adopted as per the times. The right policy matter announcements by lawmakers can be a push.

In times like these, pro-reforms announcements are required to provide the much needed impetus

to the general business environment in the country in the startup space.

What is startup ecosystem?

A startup is defined as a business that engages in development, production or distribution of new products, processes or services which is new and existence for not more than five years and earns revenue of up to INR 25 cr. Startup is not formed through splitting or restructuring.

Talking about startup eco system, it is formed by people, startups in their various stages and various types of organizations in a location (physical or virtual), interacting as a system to create and scale new startup companies. These organizations can be further divided into categories such as universities, funding organizations, support organizations (like incubators, accelerators, co-working spaces etc.), research organizations, service provider organizations (like legal, financial services etc.) and large corporations. Different organizations typically focus on specific parts of the ecosystem function and startups at their specific development stages.

Indian startup Ecosystem:

There has been a flurry of new start-ups and innovations in India in recent years. The Indian start-up ecosystem has evolved, being driven by factors such as growth in number of funds/angels, evolving technology, higher smart phone and social media penetration, growth in incubators and accelerators, younger demographics etc. Recent government initiatives like 'Start up India, Stand up India' India will only result in additional momentum in this space. Taking the lead in 2017 were e-commerce and fintech. In e-commerce, for instance, homegrown unicorn Flipkart picked up a whopping \$2 Bn-\$2.5 Bn funding from Japanese investment giant Softbank. Its biggest rival, Amazon, has committed a staggering \$5 Bn to bolster its Indian arm. Post demonetization and the launch of IndiaStack, the fintech sector underwent a sea change, with digital payments companies reaping huge returns. A lot has been happening in the Indian fintech sector. At present, sub-segments like digital payments and lending are currently maturing, while wealth management and insur-tech emerging as growth areas. Fintech will deepen and lending and investing which look overcrowded will continue to attract money. Because they will continue to prove in a long run and very large markets.

With the entry of big players like Amazon, Google, PayPal and Uber, India's digital payments space has morphed into a \$500 Bn behemoth in the making, according to a report by Google and Boston Consulting Group.

The Uber Story: The Case

Every other day in India, there is a new start up offering efficient cab service to the citizens operating in urban and rural lifestyles. Uber, all the way from San Francisco has settled itself in big way, but Uber is facing tough competition from Ola. In terms of program offered, extreme price wars, investments etc., Ola is proving to be the more fulfilling in roads of India. Currently, both OLA and UBER cabs are following the strategy of expanding their operations and building

customer base in key metropolitan cities across India. The motive is to increase market share and achieve economies of scale and at the same time providing customer satisfaction.

Uber Technologies Inc. is an American worldwide online transportation network company. It has headquarters in San Francisco, California. Founded as UberCab by Garrett Camp in 2009, it develops, markets and operates the Uber application, allowing consumers with smartphones to submit a trip request, which the software program automatically sends to the Uber driver nearest to the consumer, alerting the driver to the location of the customer. The Uber application automatically calculates the fare and transfers the payment to the driver. Since its launch, many other companies have replicated Uber's business model, a trend that has come to be referred as "Uberification".

By any measure, Uber's seven-year entrepreneurial journey has been extraordinary. No venture has ever raised more capital, grown as fast, operated more globally, reached as lofty a valuation - or lost as much money as Uber.

Last month, Uber reported a third-quarter loss of nearly \$1.5 billion, bringing its 2017 year-to-date red ink to \$3.2 billion. Losses of this magnitude are clearly not sustainable, and call for an explanation of why Uber has been unable to rein in ballooning costs and what it will need to do to survive, let alone prosper.

Much of the recent discourse on Uber has focused on the numerous unethical and possibly illegal corporate behaviors that continue to dog the company, six months after founder Travis Kalanick resigned as CEO. But while the reputational damage from Kalanick's win-at-all-costs ethos has certainly not helped Uber's cause, it has masked a far deeper problem facing the company. Uber's elephant in the room is that its business model is fundamentally broken. To understand why, it is useful to assess Uber's business model in the context of the history of the taxi industry.

Shortly after launching an app-hailing black car limo service in San Francisco in 2010, Uber founders Garrett Camp and Travis Kalanick recognized the potential to disrupt the \$100 billion global taxi industry. After all, this heavily regulated sector had seen little innovation over the prior century, leaving customers to cope with an expensive, inconvenient service that rarely seemed available when most needed. Enter Uber, who incorporated widely available technologies – GPS, Google Maps and mobile computing – into a well-designed app to create a customer pleasing, smartphone-enabled urban transportation service.

Not only did Uber offer enhanced urban mobility, but it was usually cheaper and more convenient than taxis as well. Ride hailing and payment processing were fully automated and Uber was priced well below (30% or more) comparable taxi services. With better/faster/cheaper service, Uber became an immediate hit with consumers, emboldening the company to expand rapidly. To recruit drivers in Uber's two-sided market, Uber promised high pay and flexible working hours as a compelling value proposition to independent contractors looking to supplement their income.

Venture capitalists were enthralled with the bold ambition of Uber's disruptive business model, and eagerly jockeyed for the right to invest in the growing, if unprofitable enterprise. Uber raised

a record-setting \$11.5 billion through 18 funding rounds, ultimately valuing the company at \$68 billion. Flush with cash, Uber raced to launch operations in 737 cities across 84 countries, delivering over 5 billion rides as of this writing.

There's a lot to like in this story, *except for one thing*. The taxi industry that Uber is seeking to disrupt was never profitable when allowed to expand in unregulated markets, reflecting the industry's low barriers to entry, high variable costs, low economies of scale and intense price competition -- and Uber's current business model doesn't fundamentally change these structural industry characteristics. It is indeed ironic that Uber's fierce determination to avoid regulatory oversight condemns the company to unprofitable operations that the taxi industry experienced during its pre-regulatory era.

Rivalry with Ola:

Ever since Ola and Uber came into action in India, they have been in a head on competition. Since their emergence, both of the companies have been closely tracking their competitor's strategies. One key strategy of Uber regarding charging for fake bookings me delayed cancellation has levied against Ola in India. Now comes the deep pocketed backers that Ola has been able to excel in. A lot of A-list investors such as Softbank, Tiger Global, DST Global and many others fund Ola. In fact, DidiKuaidi of China which happens to be the world's largest app based cab provider, ahead of even Uber in the Chinese market, happens to be a backer of Ola. Both Ola &Uber have been constantly offering cleaner, reliable and cheaper services than traditional taxis.

Recently, both the companies have unfolded concrete price war which caused a windfall for consumers and upped the stakes for investors. In November 2015 , Ola raised \$500 million more in response to Uber's high-handed presence and hence launched a new category called Micro in March 2016 which was even cheaper than UberGO; priced at Rs6 per km. Soon, Ola claimed micro as a category to be bigger than Uber's entire Indian business as a response to Alexander's boast. Though Ola has reversed much of its last year's market share loss to Uber, but this reversal of fortune for Ola has come at a cost. While Ola opened up a big gap against its rival and has jumped since the launch of Micro, the company has also faced cash burns. In an attempt to match Uber's spending power, Ola has already raised about \$1.2 billion from investors so far, but needs to gear up to give actual competition to Uber's spending power. Uber has already raised \$3.5 billion from Saudi Arabia's Public Investment Fund and is likely to raise another \$2 billion in leveraged loan, as reported by The Wall Street Journal in June.

Special Programs by Uber:

Uber has started a initiative called Uber Dost and also runs loan melas (fairs) to attract in new drivers. Their rewards include free insurance, benefits on health, education subsidy for kids, etc. Uber has offered differential price for different sizes of car.

For instance, the cheapest rides offered by Uber, UberGo (hatchbacks) cost Rs. 5 to Rs. 8 per km. Except for the 20% that goes out for commission to the company, the rest of the income ends up with the drivers. The fares for these taxis vary from Rs. 23 per km for a sedan to Rs. 16 per km for a hatchback, but increase when ride demands are high. During the time of odd-even car plan

in January launched by the Delhi government, Uber fares rose up to three times. On March 3, 2016 a new category was introduced by Uber under bike taxi services Uber offers a lot more options in terms of mode of payment to the customers as compared to Ola. Uber gives the option to pay via Paytm wallet, Airtel wallet, cash, debit & credit cards. Today, Uber serves in 26 cities in India, employing 250,000 drivers. Uber wants to go deeper in its current radius. India is a big name in terms of potential growth. Till now, 85% of the business of the Uber comprises from top ten cities of the country. Even though Indian market is much unorganized, 10% of the share of \$15 billion is in the hands of players like EasyCabs, Meru, Uber, Ola and more.

Heavy Investments:

Uber need more cash as they invest heavily in client acquisition and retention, driver incentives and a gradual supply of (new) cabs. about \$7 million has been invested by Uber in its leasing partner, Xchange Leasing India Pvt. Ltd, between January and March, 2016. Uber claims to have more than 350,000 drivers on its platform, but does not disclose the corresponding number. In September 2015, Uber co-founder Kalnick , in an interview to ET Now, said India has the potential to be Uber's biggest market. "We are super excited about India" and has raised \$1.3 billion in all in the past four years.

SWOT Analysis:

Strengths

- + Well-recognized brand
- + Unlimited fleet of vehicles available. Regular Taxi service regulations are not applicable for Uber.
- + Operational cost is quite low. As it relies on customer-to-driver interaction, a dispatcher is not needed.
- + Very little competition.
- + Dual rating system boosts safety and trust.
- + Convenient system for the drivers. They can work for flexible hours and can even choose to be a part-time employee. Drivers can also reject unwanted clients.
- + Lower prices as compared to traditional taxi operators.
- + High valuation of Uber encourages many people to invest in it.

Weaknesses

- + Easily imitable ideas. Nothing will prevent competition from presenting the same product/service.
- + Ethically questionable between Uber and the drivers. It is expected that loyalty between Uber and its drivers is quite low as it lacks real connection.
- + Uber and its customers have no bonding. Incentive remaining with Uber is low.
- + Cost of operating vehicles is very high. But, the drivers do not earn much.
- + There are privacy concerns. Uber records where customer gets the taxi from and where he goes with it.

Opportunities

- ✚ Customers are often dissatisfied with traditional cab companies because of their high prices and long waiting time and hence can exploit new and big markets in countries like India.
- ✚ Can tap growing markets in suburban areas where taxi services are not available.
- ✚ Estimated Time of Arrival can be reduced with rise in the number of Uber drivers which in turn will make Uber more liked by the customers and hence, the startup will get more revenue and drivers will also be profited.
- ✚ Cheaper electric cars can be used which will reduce the cost and increase the driver's profit margin.

Threats

- ✚ Low-profit margins causes dissatisfaction among the drivers. This might lead to bad publicity, which can in turn discourage the new drivers from joining Uber.
- ✚ Increasing competition will ultimately decrease prices. This will discourage drivers from joining the startup in new markets, resulting in loss of customers. Ultimately, Uber's revenues will decline.
- ✚ As new markets and drivers are joining, fraud and scandals are also increasing. It's damaging for the brand.
- ✚ Self-driving cars, e.g. Google Cars, can probably eliminate the need for Uber.

Special challenges faced by Uber:

1. Lack of availability of Uber services in many indian cities.
2. Uber is facing financial crisis. They need to find more investors and raise capital for further expansion.
3. Facing tough competition from ola and other competitors likes mega&meruetc has been born.
4. Driver's dissatisfaction with uber's pay.
5. Customer satisfaction is important. Driver's driving skills & etiquettes is also taken into account by the customer.
6. Legal challenges have been faced by Uber in terms of licensing, rules, regulations & restrictions.
7. Safety of the passenger is also a major issue which is not being addressed properly by the company & such abusive cases become known to everyone.
8. Drivers drive for ola&uber both.

Conclusion :

India's major attractiveness lies in its market size and increased purchasing power resulting in uplifting lifestyles. On the other hand Indian consumers are smart, very demanding and highly

price-sensitive with no brand loyalty; managing such market is not an easy task. Companies need to constantly be on their toes and keep designing new packages and offers to allure the customers for long which at times result in a lot of cash burn. Therefore, it would not be that easy for Uber to operate in such an environment. They have to ***optimize their costs at all levels; need to be more customer-centric & target-oriented; highly innovative; resistant to pressure from the regulatory authorities*** and above all keep delighting their customers as „customer is the king“.

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