CASE 04

Uber: Competing as Market Leader in the US versus Being a Distant Second in China

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ABSTRACT

Uber allowed people to book and share rides in private cars via their smartphones. With its headquarters in the US, it operates in 60 countries and has a strong presence in the Asia–Pacific region. This case study explores Uber's development and growth, first in the US, then its global expansion and subsequent foray into China. Despite enjoying international success with deep penetration in major cities, Uber flopped in the Chinese market. What were the reasons for its failure in China, given its spectacular performance in many other countries?

INTRODUCTION

Uber was founded in 2009 by Travis Kalanick (current Chief Executive Officer) and Garrett Camp (Co-Founder) in San Francisco. Its business model rested on the use of an app to call for a driver at any time and location (*Exhibit 1*). Uber managed to build a spectacular network of drivers and passengers in just three years, thriving in what some people term as an "instant-gratification economy", powered by the smartphone as the remote control for life. "If we can get you a car in five minutes, we can get you anything in five minutes," Kalanick said[1].

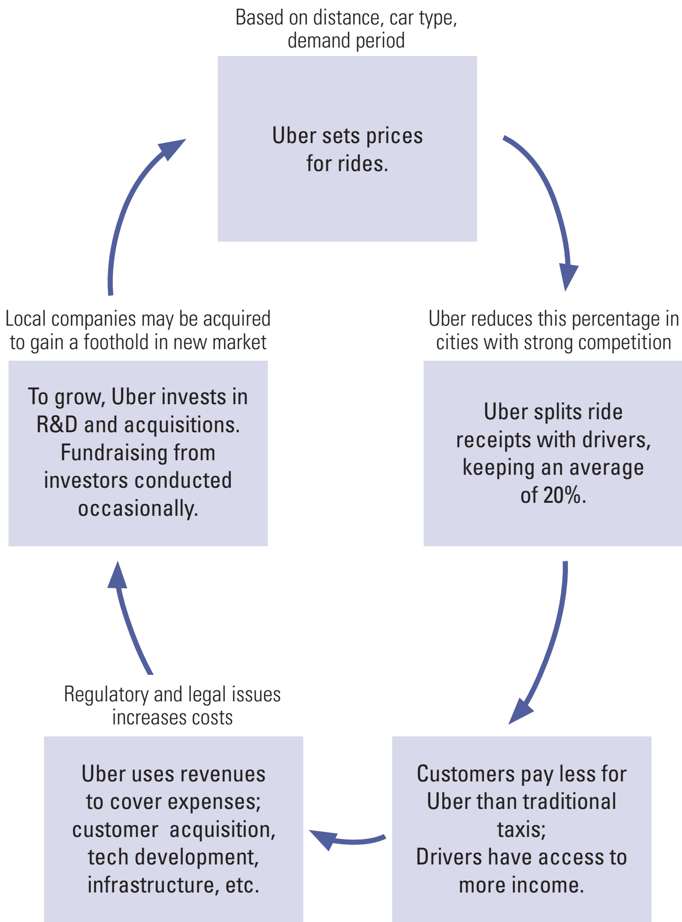

Exhibit 1 Uber's Business Model

Source

Forbes: http://www.forbes.com/sites/aswathdamodaran/2014/06/10/a-disruptive-cab-ride-to-riches-the-uber-payoff; accessed October 27, 2015.

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1 Vanity Fair covered an interview with Travis Kalanick in December 2014; this article's insights can be found throughout the Uber case study: http://www.vanityfair.com/news/2014/12/uber-travis-kalanick-controversy

Uber to better understand the Chinese market, rather than merely transplanting its San Francisco model of attracting American drivers and dealing with local regulations. Uber thus attempted to work closely with China's Ministry of Transport by setting up servers in China, in an effort to obtain an internet service company license by sharing data with local transport authorities.

Reformation in Uber's marketing strategy in China was a priority, and steps were taken to set up local teams to localize logistics, including language and support services. At consumers' requests, Uber strategically partnered with Chinese search giant Baidu, ditching Google Maps for Baidu maps into its app. Baidu also prominently advertised Uber on its main page with a prominent "Get a Car" button, linking it to Uber's app. Partnerships with Alibaba also allowed Uber to use the simpler and non-credit card-based payment mechanism of Alipay[12]. This was important as many Chinese residents did not own credit cards.

Uber competed vigorously with Didi on many other fronts to attract drivers to sign on with their companies. Both offered bonuses for drivers who hit ride targets, in a bid to extend geographical coverage and reduce wait times. This was based on an industry-wide understanding that spending cash to build an operational base as quickly as possible leveraging on economies of scale was the only way to win in China. As Didi's President, Jean Liu, revealed, "By using subsidies to get more cars on the road… waiting times were shortened, fares became cheaper, more users were drawn on to the platform and drivers on the platform. We have already created such a virtuous circle of increased orders, customer retention."[13]

To try and respond more effectively to Didi's diversification of services, Uber looked beyond its typical car-ordering model that worked so well in other international markets. In August 2014, Uber announced the implementation of People's Uber, where drivers offered "non-profit" rides to carpooling passengers who only paid for the cost of gas and maintenance. This was Uber's version of Didi's Hitch, competing directly to attract people who wanted low cost rides.

Uber seemed to be playing catch-up rather than setting trends in the China market. The race to grab market share was critical because it was understood that whoever got ahead first would remain the dominant player for a long time. Uber had to decide how to effectively compete with a much larger competitor, where to side-step competition and innovate new services, and where and how to go head-on with Didi.

12 The Market Mogul covers Didi's triumph over Uber in the Chinese market in a short read: http://themarketmogul.com/didi-kuaidi-crushes-uber-in-the-chinese-market

13 Financial Times reports on the intensive cash burning on subsidies in the China market by Didi and Uber in http://www.ft.com/intl/cms/s/0/e85cc5fa-5473-11e5-8642-453585f2cfcd.html#axzz3oPUktNrd

Study Questions

1. How could Uber retain its dominant position in the US market? Are there services and/or geographic niche markets where Uber should accommodate Lyft?
2. How could Uber effectively compete with Didi? Should it compete head-on in China, or should it side-step competition by focusing on niche markets through service innovation, and geographic expansion within China?