Why Blockchain Could Kill Uber

Bernard Marr February 9, 2018

Enterprise Tech
Bernard Marr
Contributor

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Just when platform businesses such as Uber thought their business model sets them up for success, a potential threat in the form of blockchain technology is gaining traction and just might disrupt these businesses. What if people could connect directly with drivers who are willing to transport them? Even though there are many questions to resolve regarding the full adoption of blockchain to facilitate these connections, the potential is certainly there. How could blockchain kill Uber?

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Current aggregator system of Uber

Companies such as Uber act as aggregators or a centralized clearinghouse to connect providers with individuals in need of their services. The user experience of these platforms gives the appearance that you connect directly with the service providers and therefore the platform feels decentralized.

However, all of the infrastructure including servers and software are owned by the aggregators and the mechanism for individuals to transact with one another is controlled by the platform. In the case of Uber, you submit your request for a vehicle on Uber's app and your request is sent to the company. Then, they send a vehicle to you and you send them your money. Uber takes care of sending the money to the driver. What does Uber get for this service? They take a cut of the fare for their fees.

By having a centralized entity that has all of the control, they can dictate conditions for operation and service agreements. The possibility is even there for some companies to wield their power in unscrupulous ways. It also represents one point of failure and leaves the industry vulnerable to regulatory action. Even if that doesn't happen, it's a structure that can't operate without the centralized authority and leaves many wishing for another way.

Benefits of blockchain

Before we talk about the potential for blockchain to disrupt the business model established by Uber and other businesses who operate as aggregators, we need to pause to take a look at the particular attributes of blockchain that could make it a better solution. Essentially, blockchain provides a decentralized ledger of chained records that is extremely secure since it uses encrypted keys. The data isn't stored in just one location but it is dispersed across every block in the chain. There is no centralized authority that is required. Service providers and consumers could connect directly and with blockchain, the exchange of currency is already built into the technology.

Potential for blockchain to disrupt Uber

There are still a number of variables to figure out, but the possibility is there for blockchain technology to change the way companies such as Uber operate. How would that work? Instead of having a centralized organization acting as a clearinghouse, everyone who wants to drive others around would attach that piece of metadata to their profile that is part of a blockchain. There would be locations served and other information such as reviews of the driver that could be added to the profile. Then, when someone requests a vehicle, the blockchain could filter out possible matches and deliver them to the rider who can request a ride. Then, transactions between the driver and rider can be processed on the peer-to-peer network.

Arcade City app is a prototype

Now, blockchain-enabled technology killing Uber is not only a possibility, developers of Arcade City have already made it a reality. This ride-sharing app was created in response to one driver, Christopher David's frustration with some of Uber's rules and structures. He started to dream about what "Uber-on-the-blockchain would look like." Arcade City relies on Ethereum that aims to decentralize not only currency but just about everything. Ultimately, David's vision is for Arcade City to be an open ecosystem not at the mercy of executives and boards to determine its framework for operation.

From its initial driver onboarding effort—3,000 drivers in 30 cities rushed to sign up which caused Arcade City to suspend additional recruiting—it seems like Arcade City has a market for another way of structuring ride-sharing services. As Don Tapscott, author of "Blockchain Revolution" asks, "Why do you need a $60 billion company called Uber?"

We're sure that's a question the Uber team is developing an answer for right now.

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Bernard Marr

Bernard Marr is an internationally best-selling author, popular keynote speaker, futurist, and a strategic business & technology advisor to governments and companies. He helps

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Lauren Debter
Forbes Staff

I cover the retail industry.

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Whatnot founders Grant LaFontaine and Logan Head are taking on eBay with their livestream shopping platform, popular among collectors.
WhatNot

Despite a drawdown in venture capital spending, the livestream shopping platform Whatnot—popular for sports cards, rare toys and other collectibles—has raised $260 million in fresh funding.

Grant LaFontaine has been into collecting since he was was seven years old, when he started selling Pokémon cards on eBay. In his twenties, he and his friend Logan Head got into finding and selling cool sneakers. But he felt like the online interfaces on eBay and other sites were clunky and boring, and the safety features were lacking.

In 2019, he left his job at Facebook to start Whatnot with Head, hoping to offer collectors the chance to buy and sell baseball cards, rare toys, comic books and other coveted items in a live, interactive online setting where they could chat with each other and score new items for their collections.

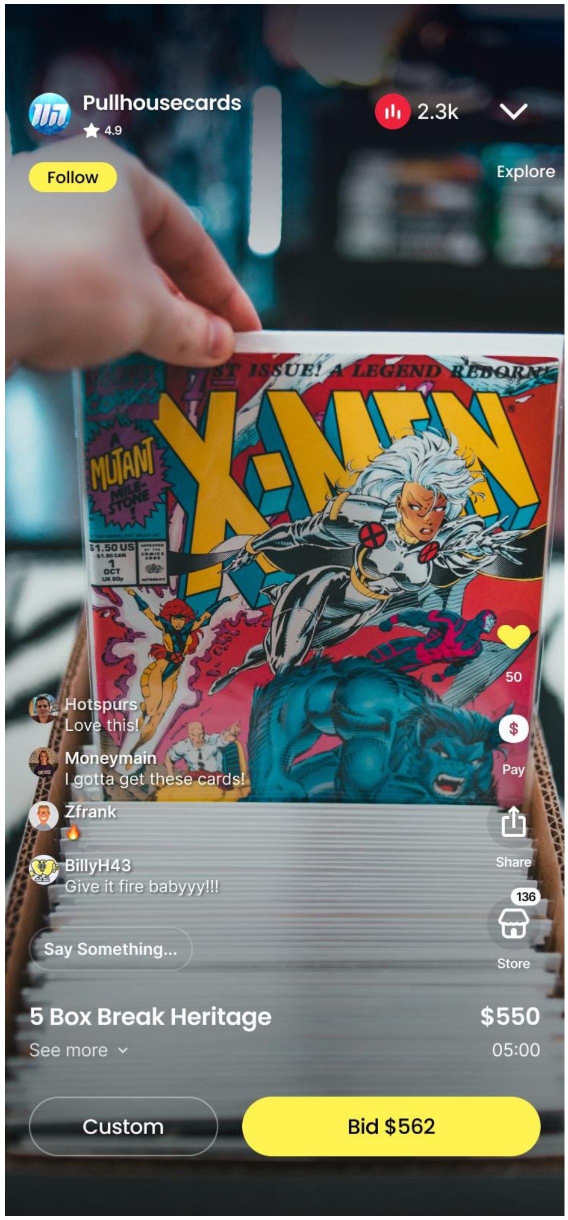
“We had this hypothesis that a new generation of collectors were entering the market,” said LaFontaine, 34, Whatnot’s CEO. “And we thought this generation, which grew up on an iPhone, was not going to be happy with the existing players because a lot of them hadn’t evolved.”

The three-year-old company has been growing quickly, and just raised another $260 million in a Series D round led by CapitalG (Alphabet’s investing arm) and DST Global, with participation from Andreesen Horowitz, YC Continuity and Bond. That brings its valuation to $3.7 billion, more than double the $1.5 billion it was valued at last year. The round took just seven days to come together, despite the market downturn and a pullback in venture capital funding.

“The growth here is almost in a class by itself. There are fast-growth companies, and then there’s Whatnot,” said Laela Sturdy, a general partner at CapitalG. “They also have a strong, durable business model, which positions them well.”

The company has emerged as the largest U.S. startup focused on livestream shopping, which is the term used to describe a modern-day take on QVC-style broadcasts in which a seller showcases items that are available for purchase to a live, online audience. The format has exploded in popularity in China in recent years. A slew of startups like Whatnot, ShopShops and TalkShopLive, as well as tech giants like Amazon and Facebook, are now pouring resources into testing whether there’s an appetite among U.S. shoppers.

LaFontaine said he had no idea of the Chinese phenomenon when they started the business. When he and Head were raising the seed round and investors started asking them about it, he just nodded—then went home and did his homework.



In one livestream, 2,300 viewers check out and bid on rare cards.
Whatnot

The company, which started out as a struggling marketplace for Funko Pop toys and had to temporarily relocate to Phoenix because it couldn't raise any money, now offers livestream shopping sessions in more than 70 categories, including sneakers, watches, vintage fashion and rare coins. The average livestream lasts two to three hours, with some sellers moving thousands of products during that time.

"I think livestream shopping is the closest you can get to the in-person retail experience," said LaFontaine. "You can actually talk to someone, you can see objects as they are. It's more fun."

Whatnot has been the fastest-growing marketplace in the nation for the past two years, according to the Marketplace 100 list assembled by Andreesen Horowitz. Last year, sales grew by over 20 times. While the company would not disclose financials, it said it takes an 8% cut on sales and is not profitable.

It has managed to attract a devoted community of buyers and sellers who spend both time and money on the platform, according to Sturdy.

“The data is closer to social media levels of engagement, in terms of amount of time spent on the platform and daily active usage,” she said. “At the same time, it has very strong commerce metrics, in terms of conversion to buying and repeat buying.”

Toy figurines made by Funko, like this Star Wars character Captain Cassain Andor offered exclusively at Comic Con, have become popular among collectors.
WireImage

In an effort to foster trust and safety on the platform, individuals have to complete an extensive application before they can sell on Whatnot. The company likes to see people who have prior experience, such as owning a comic book store or being a known social media influencer in the space. It also asks for information about from where the seller gets their supply. Whatnot approves about 30% of applications, said LaFontaine, with new sellers completing a training before they can launch on the site. Its sellers range from hobbyists to professionals, with the biggest outfits on the platform operated by 20 to 30 people.

Whatnot, similar to eBay, started in collectibles but sees room to go into all types of merchandise, with plans to expand into electronics and wine, beer and liquor. It also wants to build out additional features that make the app more social. It recently introduced direct messages, for instance. And while other companies are doing layoffs or implementing hiring freezes, it plans to hire another 100 or so employees by the end of the year, bringing its head count over 300.

Most days, LaFontaine works out of his home office in Los Angeles, where Funko Pop toys and other prized collectibles adorn the bookshelf behind him. The office, just a 15-minute walk from his house, is still fully remote.

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Lauren Debter
I am a staff writer at Forbes covering retail. I have been at Forbes since 2013, first on the markets and investing team and then on the billionaires team. In the course of my reporting, I

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