INTERACTIVE SESSION ORGANIZATIONS

Uber: Digital Disruptor

You're in New York, Paris, Chicago, or another major city and need a ride. Instead of trying to hail a cab, you pull out your smartphone and tap the Uber app. A Google map pops up displaying your nearby surroundings. You select a spot on the screen designating an available driver, and the app secures the ride, showing how long it will take for the ride to arrive and how much it will cost. Once you reach your destination, the fare is automatically charged to your credit card. No fumbling for money.

Rates take into account the typical factors of time and distance but also demand. Uber's software predicts areas where rides are likely to be in high demand at different times of the day. This information appears on a driver's smartphone so that the driver knows where to linger and, ideally, pick up customers within minutes of a request for a ride. Uber also offers a higher-priced town car service for business executives and a ride-sharing service. Under certain conditions, if demand is high, Uber can be more expensive than taxis, but it still appeals to riders by offering a reliable, fast, convenient alternative to traditional taxi services.

Uber runs much leaner than a traditional taxi company does. Uber does not own taxis and has no maintenance and financing costs. It does not have employees, so it claims, but instead calls the drivers independent contractors, who receive a cut of each fare. Uber is not encumbered with employee costs such as workers' compensation, minimum wage requirements, background checks on drivers, driver training, health insurance, or commercial licensing costs. Uber has shifted the costs of running a taxi service entirely to the drivers and to the customers using their cell phones. Drivers pay for their own cars, fuel, and insurance. What Uber does is provide a smartphone-based platform that enables people who want a service—like a taxi—to find a provider who can meet that need.

Uber relies on user reviews of drivers and the ride experience to identify problematic drivers and driver reviews of customers to identify problematic passengers. It also sets standards for cleanliness. It uses the reviews to discipline drivers. Uber does not publicly report how many poorly rated drivers or passengers there are in its system. Uber also uses software that monitors sensors in drivers' smartphones to monitor their driving behavior.

Uber is headquartered in San Francisco and was founded in 2009 by Travis Kalanick and Garrett Camp. In 2018, it had more than 3 million drivers working in 600 cities worldwide, generating revenue of 2.6 billion in the first quarter of 2018. After paying for drivers, marketing, and other operating expenses, Uber still operated at a loss. More than 75 million people use Uber. However, Uber's over-the-top success has created its own set of challenges.

By digitally disrupting a traditional and highly regulated industry, Uber has ignited a firestorm of opposition from existing taxi services in the United States and around the world. Who can compete with an upstart firm offering a 40 percent price reduction when demand for taxis is low? (When demand is high, Uber prices surge.) What city or state wants to give up regulatory control over passenger safety, protection from criminals, driver training, and a healthy revenue stream generated by charging taxi firms for a taxi license?

If Uber is the poster child for the new on-demand economy, it's also an iconic example of the social costs and conflict associated with this new kind of business model. Uber has been accused of denying its drivers the benefits of employee status by classifying them as contractors, violating public transportation laws and regulations throughout the United States and the world, abusing the personal information it has collected on ordinary people, increasing traffic congestion, undermining public transportation, and failing to protect public safety by refusing to perform sufficient criminal, medical, and financial background checks on its drivers. Uber's brand image has been further tarnished by negative publicity about its aggressive, unrestrained workplace culture and the behavior of CEO Kalanick.

Uber has taken some remediating steps. It enhanced its app to make it easier for drivers to take breaks while they are on the job. Drivers can now also be paid instantly for each ride they complete rather than weekly and see on the app's dashboard how much they have earned. Uber added an option to its app for passengers to tip its U.S. drivers, and

Kalanick resigned as head of Uber in June 2017. (He was replaced by Dara Khosrowshahi.)

Critics fear that Uber and other on-demand firms have the potential for creating a society of part-time, low-paid, temp work, displacing traditionally full-time, secure jobs—the so-called Uberization of work. According to one study, half of Uber drivers earn less than the minimum wage in their state. Uber responds by saying it is lowering the cost of transportation, expanding the demand for ride services, and expanding opportunities for car drivers, whose pay is about the same as other taxi drivers.

Does Uber have a sustainable business model? The company is still not profitable, and continues to subsidize the cost of many of its rides. Uber has competitors, including Lyft in the United States and local firms in Asia and Europe. New, smaller, competing firms offering app-based cab-hailing services are cropping up, such as Sidecar and Via. Established taxi firms in New York and other cities are launching their own hailing apps and trumpeting their fixed-rate prices.

Uber is pressing on, with new services for same-day deliveries, business travel accounts, and heavy investments in self-driving cars, which management believes will be key to lowering labor costs and ensuring long-term profitability. After a self-driving Uber car struck and killed a woman in Tempe, Arizona in March 2018, Arizona suspended autonomous vehicle testing in the state, and Uber stopped testing autonomous cars in California, Pittsburgh, and Toronto. Even before the accident, Uber's self-driving cars were having trouble driving through construction zones and next to tall vehicles like big truck rigs. Test drivers had to take over the car almost every mile. It is still too early to tell whether Uber and other on-demand businesses will succeed.

Sources: Steven Hill, "New Leadership Has Not Changed Uber," *New York Times*, March 26, 2018; Bloomberg, "Uber Revenue Spiked 70% Last Quarter, But It Still Lost Tons of Money," May 24,2018; Daisuke Wakabashai, "Uber's Self-Driving Cars Were Struggling Before Arizona Crash," *New York Times*, March 23, 2018; Craig Smith, "100 Amazing Uber Statistics, Demographics and Facts (July 2018)," *DMR*, July 29, 2018; "Rob Berger, "Uber Settlement Takes Customers for a Ride," *Forbes*, April 22, 2016; and Mike Isaac and Noam Scheiber, "Uber Settles Cases with Concessions, But Drivers Stay Freelancers," *New York Times*, April 21, 2016.

CASE STUDY QUESTIONS

1. Analyze Uber using the competitive forces and value chain models. What is its competitive advantage?

2. What is the relationship between information technology and Uber's business model? Explain your answer.

3. How disruptive is Uber?

4. Is Uber a viable business? Explain your answer.

E-commerce Revenue Models

A firm's **revenue model** describes how the firm will earn revenue, generate profits, and produce a superior return on investment. Although many e-commerce revenue models have been developed, most companies rely on one, or some combination, of the following six revenue models: advertising, sales, subscription, free/freemium, transaction fee, and affiliate.

Advertising Revenue Model

In the **advertising revenue model**, a website generates revenue by attracting a large audience of visitors who can then be exposed to advertisements. The advertising model is the most widely used revenue model in e-commerce, and arguably, without advertising revenues, the web would be a vastly different experience from what it is now because people would be asked to pay for