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- **Do not provide a table of contents, introduction, or conclusion for the case study below.**
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Case study questions

Read through the case study below entitled “Uber’s bumpy ride in China” and answer the questions that follow.

Uber’s bumpy ride in China

Introduction

On one morning of August 2016, 24-year-old Chu He of Jiangbei District, Chongqing, in south-western China, opened her ride-sharing application (Uber) to book a cab but she immediately decided to take the bus instead. Usually, it cost her around 14 yuan (about $2.11) to get to work but today the fare for the 20-minute ride to her office had suddenly soared. It had doubled with the estimated price of 28 yuan. She was not the only one, many Chinese riders in multiple cities were complaining about the non-availability of cheap rides. This was the result of a merger between the Chinese subsidiary of the US-based ride-hailing service provider, Uber and its biggest rival in China, DiDi Kuaidi (DiDi). In August 2016, Uber, after struggling for more than two years to generate sustainable profits, surrendered to DiDi. Consequently, Uber too joined the list of big companies such as Yahoo, eBay, Microsoft, Qualcomm and Apple, which had been facing problems in the world’s second-largest economy, China, to set up their businesses and gain market share. After its official launch in China in 2014, Uber’s aggressive business model helped it expand in the country initially. It established a separate regional entity, adapted many of its strategies and modified its products and services to match the demands and needs of Chinese customers. In all, Uber tried to win Chinese customers, but all went in vain against the market leader, DiDi. Finally, to escape further losses, Uber sold its business to DiDi.
Analysts and industry experts from across the world believed that China was a very different market with fierce local competition and tough regulatory systems. The country was well known for being home to the world’s most sophisticated ride-hailing scammers, and Uber could not escape from fraud and scams in China. Despite all barriers, Uber was optimistic about its expansion in the country until early 2016. However, soon after the Chinese government announced new regulations governing the taxi-sharing markets, Uber gave up and merged with its biggest rival in China. While many believed that Uber’s late entry in China was the main reason for its failure in the country, others opined that the merger was not a failure. In the discussion that follows, more information is provided on the foundation of Uber, its expansion to China, strategies implemented and the ultimate outcome of the company in China.

The beginning
In 2008, Travis Kalanick (Kalanick) and Garrett Camp (Camp) were stuck in Paris on a snowy evening and had trouble hailing a cab. Camp had recently sold his business to eBay and was hanging around with another entrepreneur Kalanick. The problem of finding a cab during odd hours and extreme weather made them come up with a business idea – “tap a button, get a ride”. Working on this business idea, the duo divided the total cost of a driver, a Mercedes S Class, a parking slot in a garage and an iPhone application among themselves. The initial vision was to address the taxi problem by connecting passengers with drivers using mobile technology. By March 2009, Camp and Kalanick were ready with a prototype of their business, which they named UberCab. In January 2010, they tested the services of UberCab in the streets of New York with three cars. In the meantime, Oscar Salazar who helped Camp and Kalanick develop the business model joined the startup. The business model of UberCab was very simple; it acted as a platform where drivers with their own cars could match the needs of people who wanted a ride. In March 2010, Ryan Graves became the general manager of UberCab. In this way, the car-hailing business took off as an application to request premium black cars.

In July 2010, the company went live in San Francisco for the first time. In the next few months, UberCab raised $1.25 million in an angel financing round. In October 2010, it received a cease and desist (C&D)

order from the San Francisco Metro Transit Authority and the Public Utilities Commission of California for allegedly operating as a cab company without proper licensing.

In October 2010, the company changed its name to Uber. The application went live on Android systems. Kalanick became the chief executive officer (CEO) in December 2010. In 2011, Uber expanded to New York, Seattle, Boston, Chicago and Washington along with international expansion in Paris. As the company grew, Uber faced several hurdles. It started to experience backlash for surge pricing, especially during the holiday season. While Uber claimed that surge was designed to ensure that passengers could request and receive a quick pick up anytime, passengers were unhappy with sudden price hikes. Apart from this, Uber met regulatory opposition in multiple markets including internationally. In 2013, Uber entered a deal with the Public Utilities Commission of California, which resulted in removing the C&D order from the company. After another round of funding, Uber stood at a valuation of $3.7 billion.

In September 2013, California (CA) became the first city to regulate ride-sharing services, which came as a big relief for Uber. By the summer of 2013, Uber started feeling the heat of competition from other ride-sharing services like Lyft. In 2014, Uber and Lyft blamed each other for disruptions; the drivers and employees of these companies were regularly hailing and cancelling the rides of each other's services – Uber said that 13,000 trips were cancelled by Lyft employees, while Lyft stated that Uber had cancelled 5,000 of its rides.

Despite facing stiff regulatory opposition in many countries, Uber believed that the company had helped strengthen local economies of markets, improved access to transportation and made streets safer. Further, its application gave a flexible new way to men and women who drove Uber to earn money. Over the years, Uber grew into a personal car service that had disrupted taxi and transportation companies around the world and became a part of a freshly evolved concept of the ride-sharing economy. The company had adapted and enhanced its mobile application and service offerings over time to support international growth. Uber's mission statement, "make transportation as reliable as running water, everywhere, for everyone", was focused on making commuting easy for everyone across cities. By April 2014, Uber was serving more than 100 cities from across the world. Among many target countries, Kalanick was very interested in China and wanted to handle this market himself.

The promises and pitfalls of China

Uber's attraction to the Chinese market could be attributed to the growing demand for transportation in China's congested and pollution-choked cities, which required immediate solutions. According to a report released by China's Ministry of Ecology and Environment in 2018, motor vehicle emissions have become a major source of air pollution in the country. In 2017, automobiles emitted around 436 million tonnes of pollutants. Also, vehicle exhaust emissions contributed to between 13.5 per cent and 52.1 per cent of all the major pollutants in 15 heavily contaminated cities such as Beijing, Tianjin and Shanghai. Further, it was not easy for anyone to buy their own car or motorcycle in China. Metropolitan cities such as Beijing issued only a certain number of license plates per year. In 2014, the Chinese government removed 5.3 million old vehicles from the roads of the country which failed to meet the minimum national standards. This again reduced the number of vehicles available for commuting. Comparing the number of cars available per 1,000 persons in China and the US, there was a huge difference: 83 and 797, respectively. Further, in a bid to cut traffic and smog, the city also set a rotating schedule of "no drive" days according to the license plate number, and drivers, if caught driving on their blackout day, were severely fined. As of 2015, Beijing had a population of almost 21 million residents but with only 66,600 licensed cabs. The country had a shortage of cabs, which made it the biggest market for the ride-sharing economy. The huge size and success of China's ride-sharing economy attracted many other companies to come to the country. As of 2015, the sharing economy in China was valued at $299 billion and China's National Information Center projected it to grow 40 per cent by 2020, making up 10 per cent of the country's total gross domestic product (GDP). With the country's economy and government undergoing restructuring and transparency reform, the Chinese Central Government was willing to embrace ride-sharing as an integral part of the economy.

China was fast in rolling out mobile network coverage, and mobile technology had become indispensable for the majority of the population in China. As of 2015, more than 600 million people were using the internet through their mobile phones. Moreover, it had attracted western technology companies from Google, Twitter, Facebook to Uber, to capture an untapped and huge chunk of market share in China. However, alongside the offer of hundreds of millions of consumers, markets in China were very competitive. Analysts believed that China had complex political structures, legal systems and regulatory rules and its infrastructure, financial markets and banking system were relatively underdeveloped compared to those in the west. All these factors made it difficult for western firms to operate in China the same way as at home. Comparing China with the US in the ranking of ease of doing business, as per the report by the World Bank 2015, China seemed to be a difficult country to operate in. Further, the taste of Chinese consumers was so different from Westerners' that foreign companies had to adapt products and services to meet the specific needs of Chinese customers.

In August 2015, the American Chamber of Commerce in China conducted a survey and found that only 25 per cent of its members in the service sector including banks, restaurants and companies such as Uber were optimistic about the regulatory environment in China. The survey found that respondents were worried about the uncertainties associated with regulations passed by the Chinese government. Further, it was found that Chinese markets were so difficult that often multinationals ended up selling out to local partners. The high chances of failure of western companies operating in China could be attributed to its unique market, which offered tough local competition and unexpected laws and regulations.

Uber's entry in China

China had been attracting many multi-national companies from across the world and ride-sharing service providers were no exception. In 2014, for every 1 000 people, there were only 113 cars in China and despite having efficient public transport systems, there persisted an extremely high demand for cab-sharing services.

While deciding on which city to choose to launch its services, Uber focused on cities with heavy traffic and an imbalanced supply-demand. Uber's entry strategy for Chinese markets was considered a relatively low-key affair. Before making a formal announcement of entering China, the company conducted a test phase in Shanghai in early 2013, which allowed it to quickly test its success through trial and error. Soon Uber started hiring staff in Shanghai and Beijing. Uber's usual global expansion strategy included setting up a local team, which took charge of operations for its own market. This strategy ensured the localisation of services, which was very important to the Chinese market. Soon, Uber's localisation strategy was implemented in China in terms of language and support.

Finally, in February 2014, Uber made a formal launch in China with the introduction of luxury car services in three Chinese cities namely, Shanghai, Guangzhou and Shenzhen. China was special for the company, as stated by Uber's Head of Asia Operations, Allen Penn, "Travis was personally invested in the success of Uber in China to a much greater degree than any other country". Furthermore, in contrast to other markets where the company hired local chief executives, Kalanick himself took over the role of chief executive in China. Analysts opined that given the combination of big competitors, cheap taxi prices and tough regulations in China, this market would be the toughest challenge for Uber.

Uber's strategies in China

Soon after entering China, Uber adjusted and adapted its strategies to meet the needs and trends of Chinese markets. In general, Uber's business model relied mainly on being the first entrant to a market, and then rapidly scaling up to put its competitors at a disadvantage to the point of a forced exit. Thus, by being first to a market, it offered subsidies to drivers and cheap rides to passengers and generated a rapid scale. Increasing the number of passengers further attracted more and more drivers to receive more fares. This model made it difficult for the late entrants to attract passengers without drivers being there to provide a competitive service level. In China, Uber entered the market when competitors were already established, and therefore, lost its first-mover advantage. Further, Kalanick, also believed that China was very different from other markets. As he said, "it is just different than everywhere else. Then, so, you cannot take your pattern or your model for other places and take that to China. You just cannot. You must do it differently". With this thought, Uber modified its existing strategies.

Establishing a separate entity

While entering China, Uber decided on a strategy that was unlike anything it had tried anywhere else. It separated its Chinese business from the global business and set up a separate Chinese entity, Uber China. Uber China was a separately-held joint venture between the global Uber business, a major investor, Baidu, and other outside investors. Setting up a separate subsidiary helped Uber invite local investors along with getting financial support from the global Uber business. Further, it was believed that becoming a Chinese company would help Uber avoid many restrictions faced by foreign businesses operating in China.

Changing the core product

As soon as Uber entered China, it realised that it had to change its core product. When Uber started its business in China, it included a credit card system where customers had to validate credit card information before opening an account on its application. However, many potential Chinese users were not comfortable with sharing their credit card information. Considering it as a major obstacle, Uber added another option of payment through Alipay – a China-based third-party online payment platform. Alipay was the most common payment method used in the country, which Uber adopted to operate in China.

Uber in all its markets used Google Maps to locate and match customers with drivers. However, in China, the coverage of Google Maps was extremely limited and inaccurate. Thus, Uber China had to redesign its software and switch its mapping partner. In December 2014, Uber entered a strategic partnership with an economically powerful and politically connected company, Baidu. It was the first time Uber used local offerings for maps. Baidu Maps were as popular in China as Google Maps were in the USA. Under the terms of the partnership, Baidu invested in Uber China while enabling the users of Baidu Map and Mobile Baidu to connect easily with Uber drivers. Uber planned to leverage Baidu's strengths in mobile search and mapping through this partnership. For the Chinese market, Uber installed some special servers to prevent and protect its operations from getting disrupted.

Moving from English to Mandarin

Uber had been offering only an English-language application across all its markets. However, before its formal launch in China, Uber's iOS application was updated to add simplified Chinese features. It introduced a Chinese-language application, which was called You-bu, ("excellent step" in Mandarin) to attract local drivers and passengers. Uber's partnership with Baidu and the introduction of the Chinese language application were considered a part of its localisation strategy.

Celebrating festivals in Chinese style

In a bid to crack the Chinese market, Uber China distinguished itself from its competitors with high-quality cars and a streamlined interface. It tried to attract Chinese clients during special events like the ones the company was doing in the USA.

In 2014, on the Chinese New Year, Uber customers were offered a promotion to order a lion dance team to perform at their home or office. Further, when the iPhone 6 went on sale in China, Uber users could buy it and have Uber deliver it to them. Uber also tried out a puppy-delivery day when cute dogs were brought to customers' offices for 15 minutes of playtime.

The game of subsidies

By the time Uber reached China, its two biggest competitors, DiDi Dache and Kuaidi Dache, were on the way to achieve economies of scale in the ride-hailing market. They offered huge subsidies and incentives to drivers and passengers.

Though Uber started its operations in China by offering high-end Uber Black cars only, by June 2014, it initiated aggressive expansion in China and launched another line of economic services, UberX. Uber offered different levels of services and premium services such as Uber SUV and Uber LUX. In August 2014, it launched People's Uber, which operated on a not-for-profit basis. Typically, Uber generated revenues by taking a cut of about 25 per cent of the passenger's fare while passing the rest of the fare on to the driver. However, People's Uber gave up any cut of the fares. Considering the fierce competition in the Chinese market, Uber started aggressively attracting drivers and paid its drivers a multiple of the passenger's fare. Following this, Uber China was losing money on most rides.

This was not Uber's usual move. Kalanick said, "Uber does not really do this type of thing. But we are number two in China, and we must, in some ways, follow the lead of the number one". It was believed that the company was so desperate to gain market share in China that it started paying big salaries and incentives to its drivers. In some cases, the amount equivalent to two to three times the fare Uber customers were charged during rush hours was paid, apart from additional bonuses for working extra hours. Further, it was found that the incentives offered by Uber China per trip were the highest in China than in any other global market of the company.

Local investment and partnership

In January 2014, the Beijing Commission of Transport released a regulation to relieve traffic pressure and encourage non-profit carpooling. Considering this new regulation, Uber launched People's Uber and being a non-profit ride-sharing service in Beijing, this service was successful and grew further after its launch in more cities.

In March 2015, the company signed a strategic cooperation agreement with a Chinese automobile company, Yongda Auto, which became its first car dealer partner in China. Under the agreement, both parties shared resources to construct the business model based on the automobile, finance and the internet. In April 2015, Uber entered another strategic partnership with the world's largest wireline telecommunications – CDMA mobile network and broadband internet services provider of China. The partnership helped Uber with a package of solutions in telecommunication and advertising resources. Another collaboration of Uber China happened in September 2015, when it signed a strategic cooperation agreement with the National Center of ITS Engineering and Technology, also known as ITSC, of China. The agreement's primary objective was to collaborate on promoting research projects based on the internet and transportation. By March 2016, the company received funding of around US$2 billion from various Chinese investors.

The bumpy ride of Uber China

Despite its localisation strategies and adaptation to the Chinese system, Uber China was still finding it hard to strengthen its hold in the Chinese market. There were many factors which obstructed Uber's growth in China including fierce competition from local taxi-hailing and ride-sharing applications, protests from irritated cabbies, government raids and police crackdowns, and so on.

Intense local competition

Uber China had two big competitors in China, namely DiDi Dache and Kuaidi Dache, which occupied the biggest chunk of the market share of the country's taxi-hailing market. As a pioneer in China, the two local competitors had an advantage over Uber in reaching wider areas. Established in 2012, DiDi

Dache had wider coverage with multiple lines of business including taxi, private car service, ride and designated driving services. Thus, being a comprehensive one-stop consumer transportation platform, DiDi Dache became a great challenge for Uber. Within three years of its inception, DiDi Dache established a large scale of users, attracting more drivers to receive orders at any time within a closer distance.

In 2015, DiDi Kuaidi (DiDi or DiDi Chuxing) was born because of the merger between DiDi Dache and Kuaidi Dache. After this merger, DiDi accounted for a 83.2 per cent share of active users of private car-hailing applications against Uber's 16.2 per cent market share. The overall volume of DiDi Taxi grew to as large as ten times that of Uber China with the financial support of some of the biggest Chinese companies such as Tencent and Alibaba. In 2015, DiDi had arranged 1.4 billion rides in China, more than what Uber had managed worldwide. Uber's strategies to acquire more market share in China failed to outperform DiDi. As opined by Zhang Yi, the CEO of the consultancy, iMedia, "for Uber, the biggest risk is from a competitive market, not from the government". Further, Minyuan Zhao, associate professor of management at the Wharton School of the University of Pennsylvania, also said, "competition in China is strong. Throwing current incumbents off the throne will be a big challenge".

By June 2016, DiDi raised funding of $7 billion while Uber received $3.5 billion. Both companies spent heavily on subsidies to lure drivers to sign up. However, DiDi enjoyed an upper hand over Uber. Even after initial years of rapid growth, Uber China was operating in only 60 cities and served 40 million rides per week against DiDi's presence in more than 400 Chinese cities covering 100 million journeys per week. DiDi tempted its drivers who wanted to buy new cars by offering car loans. For passengers, DiDi's application let them book test drives of new cars on behalf of carmakers such as Mercedes and Audi.

DiDi enjoyed another advantage over Uber when half a billion users of the Chinese messaging application, WeChat, were given the option of calling a DiDi cab via the application. Initially, DiDi gave its riders an option to pay in cash, which came as a great convenience to the Chinese, but later, it incorporated WeChat's payment system, which by that time had become hugely popular among Chinese users. WeChat even blocked Uber from using its application, hurting the ride-hailing company's business. Uber had made a similar arrangement with Facebook, but the Facebook application was blocked by the Chinese government. Uber, being a late entrant, was at a disadvantage in China as its competitors got enough time to develop strong links with some very strong companies of China like internet giants Alibaba and Tencent.

Scammers

The local competition was something which Uber always knew it had to face in China, but the company also had to struggle with a different threat – scammers and fraud. Given the fact that China had been home to many ride-hailing scams, drivers and hackers exploited ride-sharing companies to get extra subsidies without driving anyone anyplace at all. These scammers often created fake passenger accounts for taking a ride with a driver who received the bonus.

During the summer of 2015, about three per cent of Uber's rides, equivalent to about 3,000 daily rides, were found to be fraudulent in China. The company's managers spent several hours to check for fraud patterns. Recalling such activities, an ex-Uber employee said, "every Monday is payday and fraud day. The frauds that got caught were the severe cases [. . .] only those who do hundreds [of fraudulent trips] per week".

Though Uber tried to change the algorithm to keep a time gap between matching the closest rider with the closest driver, it resulted in creating a user experience mess because when a fake rider requested a ride and a real driver picked it up, the ride was cancelled immediately.

Analysts believed that there was no denying that subsidies had encouraged substantial fraud. Uber stated that such activities formed only ten per cent of total rides but various Chinese media reports pegged it closer to 30 to 40 per cent.

Mounting losses

Because of intense competition and fraudulent activities going on against Uber, the company was not able to generate substantial revenues in China. In fact, it was under huge loss. Though by June 2016, China became the largest market of Uber and accounted for more than a third of its global business in terms of weekly trips, the company was losing more money in China than any of its other markets in the world.

Further, Uber China spent billions of dollars subsidising the rides to gain more and more market share. By offering large discounts on trips (often equivalent to the full cost of the ride), Uber's performance became unsustainable in the long run. On the one hand, one of Uber's spokespeople revealed that they had sustainable financial strength to win in China in the long term. On the other hand, Uber's biggest competitor, DiDi Kuaidi, said, "Uber was using fictitious numbers and that its strategy was unsustainable and severely challenged". Though neither Uber nor DiDi could afford the high level of subsidies for the long run, DiDi still became the dominant Chinese player in the space because of its wider presence.

In its war against DiDi, Uber was burning more than a billion dollars a year in China. Uber CEO Travis Kalanick said, "We're profitable in the USA, but we're losing over $1 billion a year in China. We have a fierce competitor that's unprofitable in every city they exist in, but they're buying up market share. I wish the world was not that way". Moreover, Uber was using its profits from other markets to support investment in China.

Complicated status of Uber China

Uber was not technically illegal in China, yet many Chinese drivers believed it was illegal. The company experienced occasional police raids; while taking rides near train stations and other popular destinations, its drivers had to look out for police waiting to detain them. In January 2015, the Transportation Commission of Beijing declared special services of Uber illegal and in April, Guangzhou's police and transportation commission cracked down on Uber and confiscated 1,000 iPhones. Further, in 2015, Uber's branch office in Guangzhou and Chengdu also faced investigation. The unclear status of Uber and police crackdowns posed big obstacles for the company to operate in China.

Growing protest against Uber

Another prominent problem for Uber China was protests and strikes by the traditional cab drivers of the country with an increasing number of incidents of attacks on Uber drivers by traditional cab drivers. In January 2016, a non-government organisation, China Labour Bulletin, reported that in Dongguan city, around 1 000 cab drivers went on strike demanding the government to crack down on services such as Uber.

According to Geoffrey Crothall, spokesperson for China Labour Bulletin, "taxi drivers have always faced problems of franchise charges and competition from illegal cabs. Now you add the vast numbers of new live hailing cars added to that competition and of course it is going to intensify the pressure the traditional cab drivers feel". DiDi countered this issue by preferring to work with taxi drivers rather than individual car owners, and hence, won over local authorities and pleased the taxi drivers of the country. Further, given the fact that Chinese riders had more trust in taxi drivers than any stranger who owned a car, this again took away passengers from Uber.

China's national regulation

It was believed that Uber's aggressive push into China became possible only because the space was largely unregulated. Further, different cities in China had very different regulatory environments. In some areas where either the government was not present or there were no regulations, the rate of companies' success was very high. It implied that companies could succeed in any form of business in China if it fell into a grey zone and ride-sharing was one such business. This made Uber optimistic about its success in China. The nationalisation of industry regulation was bad news for companies such as Uber, which took advantage of the grey zones. The impending national regulations became a reality in July 2016 when the Chinese government announced a new set of rules governing the ride-hailing industry of China.

Under the new rules, all drivers must pass a criminal check and have a minimum of three years' experience of driving. All the ride-hailing companies and driving vehicles must be registered with authorities. Further, it came under the discretion of cities' administration where ride-hailing services were operating to set minimum and maximum prices to control fares, which meant that subsidies would come to an end. Other features of the regulations governing the ride-sharing industry of China included the following: (i) online car booking services will be made legal; (ii) the government will encourage the development of a sharing economy and online car booking and non-cash payments; (iii) cars cannot have more than seven seats and must be retired from service after reaching 600,000 km; and (iv) user information and data collected by car-booking platforms must be stored within China for at least two years. The regulations stated that the market prices would prevail only until municipal government officials felt the need to implement government-guided pricing. The national regulation gave more powers to local authorities who were free to place any additional requirements on vehicles.

The new set of rules put pressure on companies such as Uber and DiDi to harmonise their businesses with taxi operators. On the one hand, DiDi promised to make large investments to integrate online ride-hailing and taxi services. On the other hand, the differences in the culture and regulatory systems of China and the USA made it difficult for Uber to fit into the Chinese system. Though the Chinese government legalised ride-sharing in its own way, there were provisions, which made the business model of Uber – selling rides below cost to push out competitors – illegal. Experts believed that all circumstances were stacked against Uber China.

Being a foreign company

Kalanick made efforts to cultivate political relationships in China and paid frequent visits to the country. However, for western companies, it was always a challenge to expand in China given that local companies had an advantage in the country's cultural, economic and political environment. Many experts believed that foreign companies like Uber were facing government pressure. Analysts observed that the Chinese government had always supported domestic companies. According to Robert Atkinson, president of the Information Technology and Innovation Foundation, "as President Xi Jinping took office, they have increasingly switched from an economic strategy that emphasises attracting foreign direct investment to one that favours indigenous innovation and Chinese-owned firms". As a result, foreign companies such as Uber were subjected to tougher regulations than local players. Further, Arthur Dong, a professor at Georgetown's McDonough School of Business, said, "there is a home-field advantage. Whether it is the state function of government policy or a less formal policy, foreign companies are at a great disadvantage".

The exit

Amidst fierce competition and unfavourable national regulations passed by the government of China, Uber China finally surrendered in the country. On 1 August 2016, the regional subsidiary of Uber announced its merger with its biggest and major rival in the country, DiDi, in a mega-merger of $35 billion. While some analysts believed that Uber's operations in China were not sustainable in the country, and it was left with no other option than to wrap its business in China, others believed that the newly launched national regulations pushed Uber out. Others faulted Uber for its inability to fully understand the country's local culture, business dynamics and consumers. According to Jost Wubbeke, head of the program for economy and technology at the Mercator Institute of China Studies in Berlin, "the fierce battle for market shares was a big loss-making business for both companies. With huge losses in China, but only modest market influence, Uber had to surrender to DiDi".

Under the merger, Uber Global would take a 5.89 per cent stake in the newly merged entity; Chinese shareholders of Uber China, including Baidu, would receive a 2.3 per cent stake in DiDi. In the short term, Uber would maintain the management of its application in China. The terms of the agreement suggested not only a financial transaction but also a strategic alliance with Kalanick taking a seat at the board of DiDi and DiDi founder, Cheng Wei, joining the board of Uber. Uber would get a 20 per cent minority stake in DiDi. Further, DiDi invested $1 billion in Uber, based on the latter's overall valuation of $68 billion.

Uber China – DiDi merger: an easy escape for Uber?

Many believed that the merger would be beneficial for both DiDi and Uber. Being an American company and given the fact that the $2 billion which Uber spent gearing up in China had become worth about $7 billion in the newly merged entity, the deal was as good as a win. According to Richard Ji, Hong Kong-based co-founder of All-Stars Investment Ltd, "this will lead to favourable outcomes for both companies. The biggest benefit is cost savings; they no longer must give out subsidies to drivers and passengers. It will give pricing power as the new entity will become the dominant player. That means profitability will come sooner [rather] than later". Further, the partnership would help both companies recover from the losses incurred while competing. It was believed that the Uber-DiDi deal had provided a graceful exit for Uber with it getting the best out of a bad situation. Commenting on the merger, analysts Li Yujie said, "China is such a tough market, in terms of regulation, competition and culture; they faced challenges on so many fronts. Cooperating with rather than fighting DiDi might not be such a bad idea". Further, the merger would help Uber to focus on its other markets and ambitious technology projects such as mapping, delivery and driverless cars. Calling this merger a positive move, an economics professor at New York University said, "the biggest existential risk to Uber over the past two months was that in China they were losing money in a way that possibly put the rest of their worldwide operations at risk. In the short term, it may be seen as a loss, but in the imminent years, it is definitely a good move. Now they can put their efforts on the rest of the world".

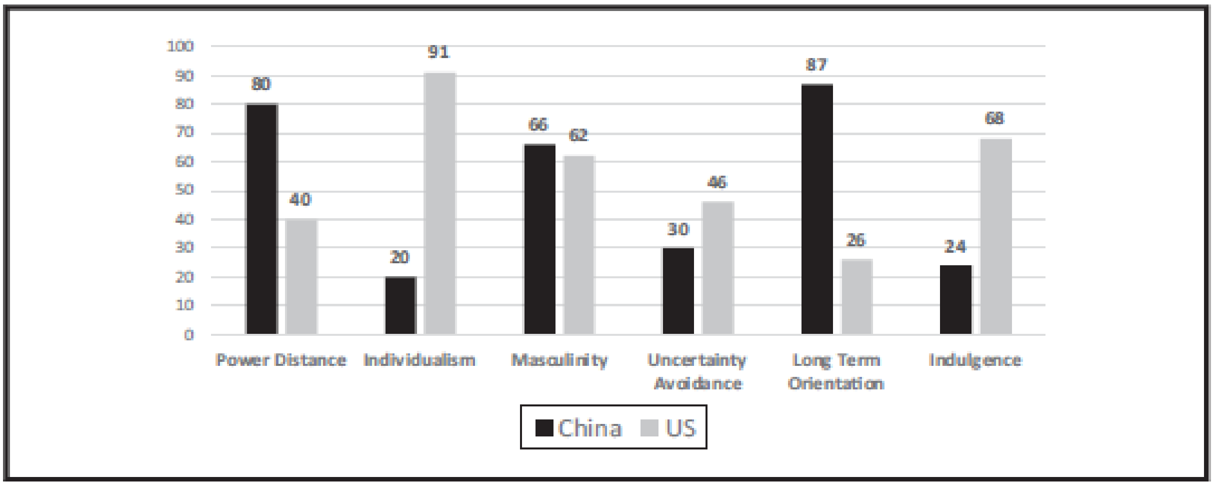
Way forward

Though some industry experts believed that Uber China's exit was mostly bad news, Kalanick was optimistic about the future of Uber. He said, "I have no doubt that Uber China and DiDi Chuxing will be stronger together. That's why I'm so excited about our future in China – a country which has been incredibly open to innovation". However, Uber's problems in China did not end with its merger with DiDi. In September 2016, some of the Uber drivers in China were using zombie-like profile pictures to scare customers who ended up into cancelling their rides. These drivers, thus, collected a small cancellation fee. As Uber was in transition after the merger deal, it could not handle these frauds making it an easy target for scammers.

Further, China's ministry of commerce opened an anti-trust investigation into the DiDi-Uber deal after it received complaints that the Uber-DiDi merger did not follow the country's anti-monopoly laws. A ministry spokesperson, Shen Danyang, said that an investigation into the deal was opened based on the anti-monopoly law and DiDi was summoned twice to explain why it did not report the transaction for approval. Further, according to Wan Yuchen of the China Market Research Group, "consumers were concerned that there would be a monopoly, and the price would go up. Drivers are also concerned that current subsidies would be gone. Consumers want more competition in the market at this point". Uber riders in China feared a price surge after its merger with DiDi and expressed their concern that the merging of services would put an end to the heavily discounted trips.

Though there were many challenges that China posed against Uber, there were certainly many lessons that the company learnt from its journey to China. Analysts believed that the major lessons from Uber's journey in China were to adapt to local markets and respect local cultures. Although Uber did everything in China which any foreign company was expected to do, it failed. What led to Uber finally giving up to DiDi? Was it the right decision to exit out of China? Was it Uber's late entry in China which put it in a disadvantageous position in the country?

Figure 3 Comparison of the USA and China on Hofstede cultural dimensions



Apart from many other factors, Hofstede's cultural dimensions explain the key differences across Chinese and other western cultures such as the USA. Figure 3 provides the score for China and the USA on six cultural dimensions. Apart from masculinity, Chinese are different in all other dimensions.

Source: Singh, G, Dwesar, R & Kumar, S. 2020. Uber's bumpy ride in China. *The CASE Journal*, 16(2):185-214.

Question 1

Identify and explain the formal and informal institutions in China that affect Uber's operations. Give TWO examples for each institution from the case study to support the arguments made. (15)

Question 2

Apply the national competitive advantage theory to the case. Provide FIVE examples from the case study. (10)

Question 3

Evaluate the advantages that China has to offer Uber in its investments in China. Give FOUR examples for each type of advantage from the case study to support the arguments made. (10)

Question 4

Discuss the potential benefits for China as a host country from Uber's foreign investment. Give one example for each benefit from the case study to support your argument. (10)

Question 5

Analyse how cultural dimensions outlined by Hofstede's framework might affect the management of Uber in China by making comparisons between the USA and China. (10)

Question 6

Evaluate how the environmental challenges faced by China affect Uber's operations. (5)

Question 7

Appraise Uber's key resources and capabilities using the value, rarity, imitability and organisation (VRIO) framework. (10)

Question 8

In your opinion, did Uber make the right decision to exit the Chinese market, or should it have continued? Substantiate your answer by FIVE key points. (5)

Question 9

Investigate the disruption that Uber caused when they entered the South African market.

In your answer, you should

(i) address consumer and competitor dimensions of the taxi industry by comparing traditional metered South African taxis and Uber taxis. (8)

(ii) explain the disruption caused by Uber on the traditional taxi industry. (4)

(iii) explain the impact of Uber on the South African economy; the legal environment; the social environment; and other sectors of the economy. (8)

Section total: 95 marks

Reflections

This section focusses on reflections, which gives you an opportunity to critically evaluate your learning journey throughout the module. It is meant to help you consolidate your understanding of global business management principles. Reflect on what you have learnt, the challenges you faced and the skills you gained. (5)

TOTAL FOR PORTFOLIO = 100 MARKS