

Uber, a Disruptive Business Model of a Taxi Service

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Abstract

Uber is an on-demand non-conventional taxi business since it owns no cabs and has no cab drivers as employees. Instead, it sends a driver to a user when they ping a mobile app. It is a technology company that matches consumers to car services in many cities around the globe and takes a slice of the fair for the service.

Uber started as a luxury black-car service in San Francisco in 2009 that went on to be valued at \$17 billion by June 2014. It has disrupted the monopoly of taxi cab transportation and has reinvented the experience completely. Previously, there were several payment difficulties when you arrived at your destination. Uber has solved all these touch points, creating a “WoW” (enjoyable) experience by giving the customers “peace of mind” and sparking an avalanche of word of mouth and press.

Uber’s Business Model has come under attack from regulatory authorities in many Countries, from China to France. However, we see it as teething problems as on the S-curve, it is still at the birth stage and will have to solve the “ifs and buts” in the paradigm shifting innovation journey to reach its ideal.

Taking Customer Evolution Trend, Uber has positioned itself in the Experience Quadrant of the trend by reimagining the customer’s entire experience and making it seamless across all the touch points.

Keywords: 4 Pillars of Systematic Innovation, Business Model, Disruptive, S-Curves

1. Introduction

Uber is a taxi service that is currently disrupting the taxi market worldwide. Unlike any other taxi companies out there, it is non-conventional since it owns no cabs, and the taxi drivers aren’t their employees. However, a better label to give Uber would be a “technology company”, since what they do is they use a mobile app to match consumers to cars. They send a driver to a user when they ping the mobile app

and take a small slice (20%) of the fair for providing the service. Basically what Uber is doing is they’re *selling the taxi service differently*.

2. History and Exponential Expansion

Uber started in 2009 and was launched in 2010 in San Francisco, ever since then their growth as a company has been exponential. (See Figure 1 and Figure 2)

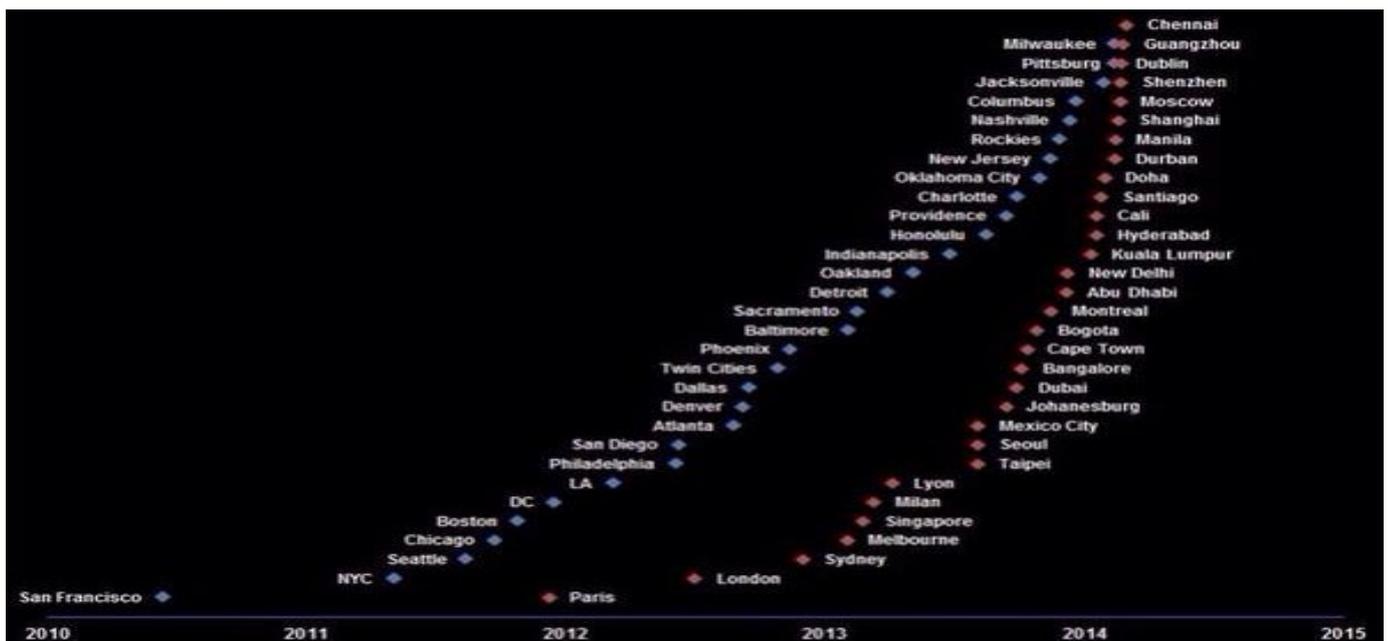


Fig. 1 Uber’s city expansion.

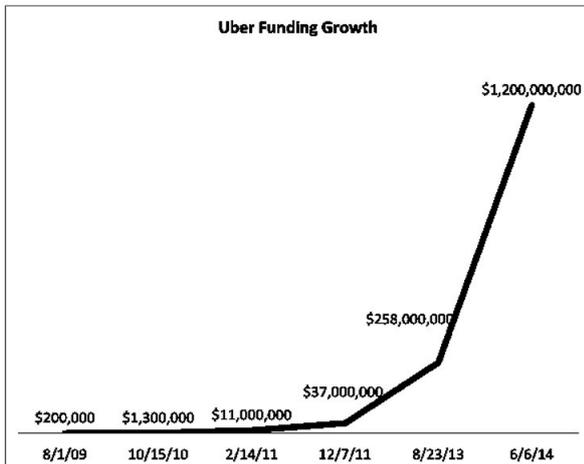


Fig. 2 Uber's funding growth (Ferenstein, G., 2014).

- Uber now runs in 250 cities up from 12 in 2012
- Grew from 75 staff in August 2012 to over 300 staff in August 2013
- Ever since 2013 their revenue has been growing by 18% every month
- BBC stated that it will create over 50,000 jobs in Europe
- By June 2014 its valuation was \$40 billion and some say it will be the next \$100 billion company

Since Uber's launch, the firm has been under attack from regulatory authorities in several cities around the globe:

- **France:** ban from Jan 2015 for fraudulent business practice & improper competition – fine €100,000, Oct 2014
- **India:** Dec 2014 banned in Delhi as one of the driver arrested on rape charges
- **Netherlands:** banned as it lacked a special license required by the country's law
- **Portland USA:** sued for not having for-hire vehicle licence
- **Thailand:** ordered to stop services as it went against the laws of the country
- **Other Countries:** China, Taiwan, Germany, UK

We as innovators simply see these issues as teething problems. Uber are currently at the bottom of their S-curve (Figure 3) and so they will be prone to problems such as these. Innovation is (Figure 4) defining what ideal is for the customer, and reaching that ideal by solving all the "ifs and buts" along the way. This can already be observed as in London, a new sharing economy body has been created to allow the government and businesses similar to Uber and Airbnb to find common ground and establish some baseline rules to move forward.

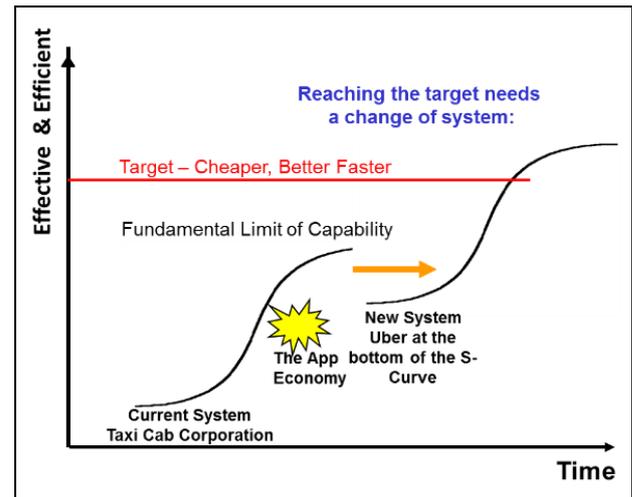


Fig. 3 S-Curves (Mann, D. L., 2008).

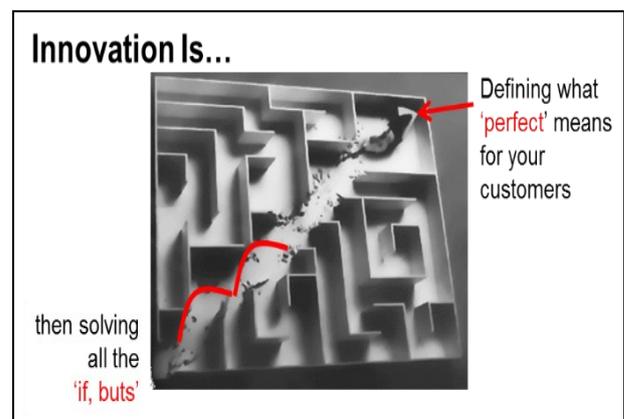


Fig. 4 Innovation Definition (Mann, D. L., 2007).

3. What is Business Model?

The factor that makes a good business model is when the company is organised differently, which allows them to sell their products differently.

A very well-known example of this would be Nespresso, a company owned by Nestle that make coffee machines and coffee pods to be used in the machines. The company almost failed in 1987 when they first launched their Nespresso system due to their poor business model. They had a joint venture with the manufacturer of their machines to target and sell to offices. This failed because offices weren't very interested and even when they did make sales, the majority of the money would go to the machine manufacturers.

Nespresso then changed their business model. They began selling their machines through retailer channels. They sold their coffee pods through their own channels, the repetitive pod sales are what allowed their revenue to increase. They also set up multiple distribution channels to sell the pods, such as online, mail order,

call centres and Nespresso stores. Ever since this change in business model, Nespresso has been growing by 30% each year for the past 10 years.

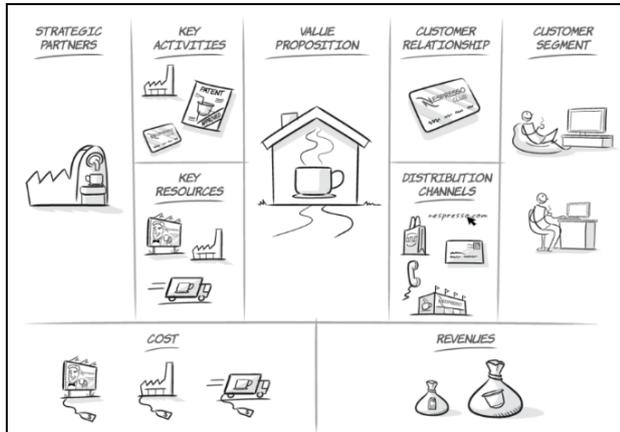


Fig. 5 Nespresso Business Model canvas (Pijl, Patrick Van der, 2009).

Another great example would be Google. They receive revenue by selling adverts on their search engine as well as YouTube and use this revenue to provide their end users with a free perfect now service (the search engine).

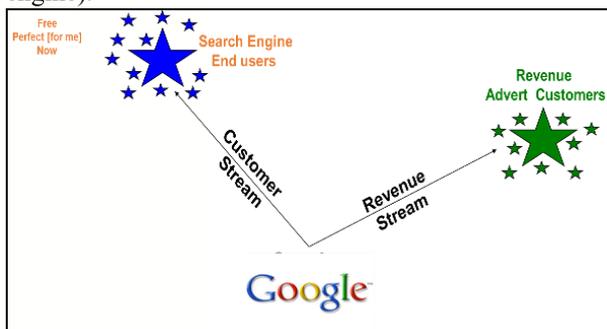


Fig. 6 Google Business Model (Walji, J. & Mann, D. L.,2007).

Grameen Bank. They are a bank that sell microloans, however unlike any conventional bank, their loans don't require any collaterals. The borrowers don't have to sign any legal documents and it's owned by poor women. The amount of loan one receives is based on the potential one has. As a result, 58% of borrowers (20 million people in the last 20 years) have been lifted out of poverty. The bank also has a return rate of about 98.5%, which is higher than any conventional bank, thanks to the unique peer pressure and peer support system they utilise.

Semco in Brazil is yet another brilliant example. Their main business is making biscuit machines. The majority of the company also relies on peer pressure. They have a workplace democracy. Managers set their own wages, Workers choose their own bosses, set their

own time, and so there is no need for things such as a HR department or employee contracts, thus saving cost without losing the HR function. As soon as this business model was applied, Semco's revenue went through the roof. Ricardo Semler has now replicated this business model in primary schools where students choose their own teachers, set the rules of the schools and choose the days they take off etc.

4. Four Pillars of Systematic Innovation

The four pillars of systematic innovation are *Ideality, Functionality, Contradictions and Resources*. These can significantly be found in Uber's business model.

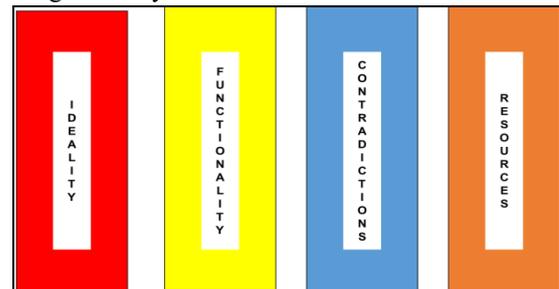


Fig. 7 Four Pillars of Breakthrough Innovation (Walji, J. & Mann, D. L.,2007).

Ideality: Also known as *Customer Value* is simply increasing the good and decreasing the payment factors. Therefore it can also be represented by the formula in Figure 8.

$$CV = \frac{\text{Benefit (tangible + intangible)}}{(\text{Cost} + \text{Harm})}$$

Fig. 8 Customer Value Formula.

The aim with customer value is to reduce the cost and harm as much as possible to provide a service that includes all three of the value parameters: *Cheaper, Better and Faster*, and the ideal of that would be a service that is *Free, Perfect, and Now*.

Traditional taxi services fail to do this, they usually provide one of these parameters. Uber on the other hand has managed to provide all three of the value parameters and that is why it's disrupting the taxi market so severely.

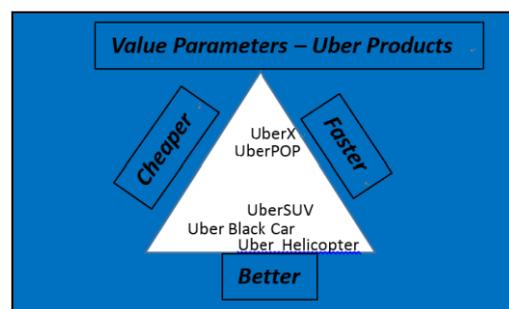


Fig. 9 Uber's Value Parameters (Owonyang, J., 2014).

- Functionality:** The second is functionality. Functionality states that the function stays the same, but the solution changes. An example would be washing clothes. It started with hand washing, then moved to washing machines that use soap powder, then Sanyo came out with a washing machine that uses no soap powder, then a washing machine that uses no soap powder and virtually no water was invented, and then air washing, and finally a perfect shirt (released in 2006) that doesn't get dirty (nanotechnology). The outcome of all of these is a clean shirt (Figure 10).

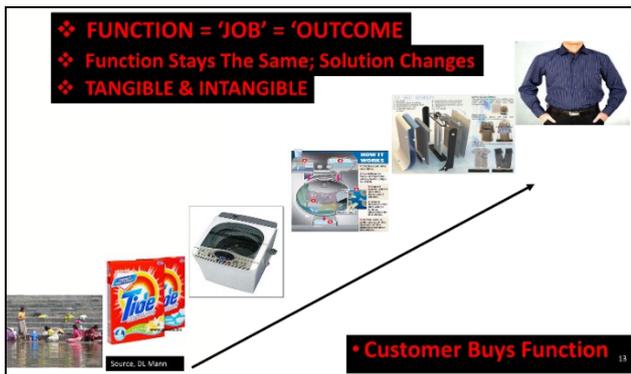


Fig. 10 Function stays the same Solution changes (Walji, J. Mann, D. L., 2007).

Uber's function is to provide transport. The traditional taxi system has evolved to produce this new system that is efficient, as the car reaches your house in under 10 minutes, and the app charges your credit card at the end of the ride. This also makes the experience more enjoyable for the customer since they don't have to deal with cash, change, tips, or receipts. The outcome of all of this is; the customer has peace of mind, which is an intangible value, and Uber has provided this intangible value via tangibles, which all companies should aim to do.

"Intangibles are non-physical factors that contribute to or are **used** in producing goods or providing services, or that are **expected** to generate future productive benefits for the individuals or firms that control the use of those factors."

Additionally, another thing that makes Uber really efficient is their capacity utilization. Capacity utilization is a major problem with traditional taxi companies because they fail to match supply to demand, and as a result you get taxis cruising empty. To compensate for these empty rides traditional taxi companies have to charge higher fares. However, Uber matches supply to demand almost perfectly, which

allows them to be more profitable and offer lower fares on certain routes.

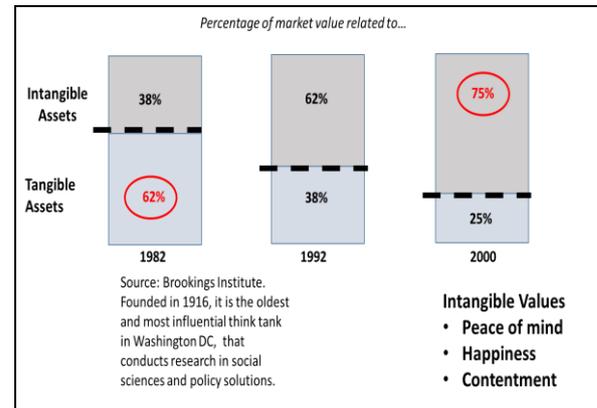


Fig. 11 Source of value has shifted (Brookings Institution, 2007).

- Contradiction:** The third pillar. All systems contain contradiction. What people and companies do is they try and solve a contradiction by coming up with a compromise. This often involves opportunity cost. They do this because they believe that compromise is the only way to deal with contradictions. But we know that all powerful and ideal solutions are ones that solve the contradiction, and thus eliminate the opportunity cost within these compromises.

Example: The bicycle saddle. An ideal saddle must be wide to provide comfortable support, AND the saddle must also be able to permit pedalling action. Because this design contradiction could not be solved, they came up with a compromise where the back of the seat is wide and the front of the seat is narrow, where the opportunity at cost is the comfort. But in innovation we try and eliminate opportunity cost. ABS sports came up with a solution called the "dual action seat" that is wide to provide comfort, and allows you to pedal despite the width.

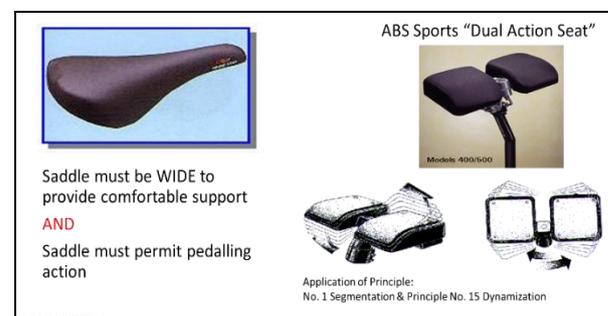


Fig. 12 Typical design compromises - The bicycle saddle (Robinson, C. & Mann, D.L., (2006).

Uber has successfully solved the contradiction of providing a cheaper AND better AND faster taxi service. Traditional taxi services have given into opportunity cost, which is to offer one of the three value parameters, rather than solving the contradiction itself, and this once again, is why Uber has been so successful and disrupted the taxi market so effectively.

- Resources:** The fourth pillar. Uber has effectively used the whole city as a resource and as a result, they have managed to turn all of the fixed costs that traditional taxi companies have, into variable costs, this is what allows them to charge cheaper fares on certain routes. They don't require large

parking lots to park their taxis (e.g. Dubai and Doha) because they don't own any taxis, drivers use their own personal parking space in their homes. They don't have to worry about maintenance of the cars because once again the cars are owned by the drivers. Even for insurance, the drivers are responsible. Anyone who owns a car can become an Uber driver. What Uber has done is, it has defined the whole city as a system, and used everything in it as a resource. This is the uniqueness of their business model that is *selling the taxi service differently by using the whole city as a resource.*

5. Economic Evolution Trend (customer expectation evolution trend)

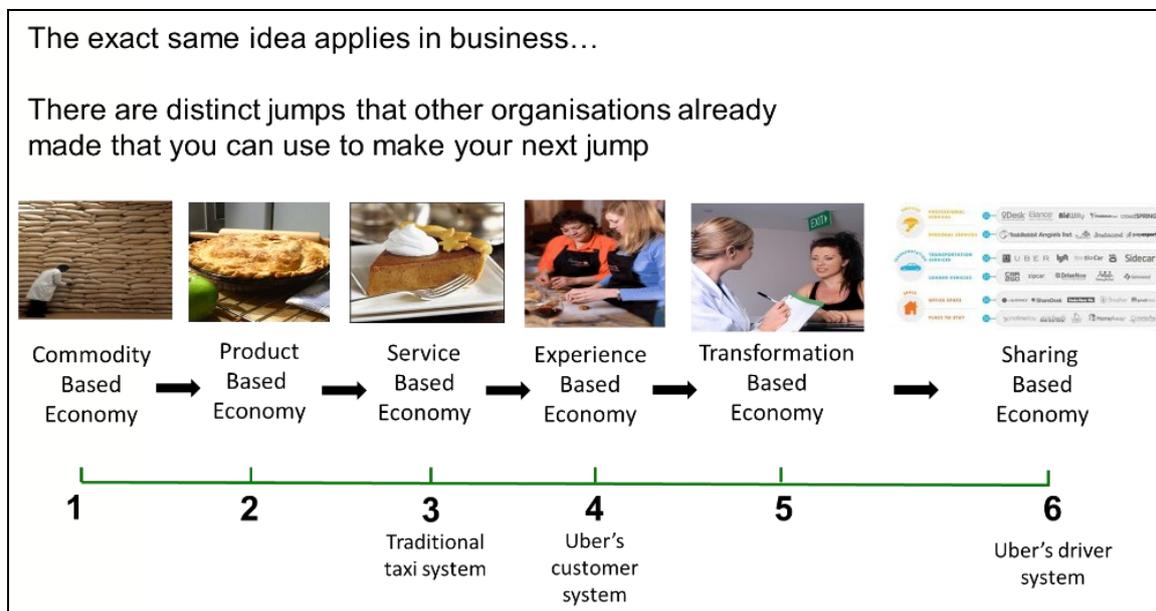


Fig. 13 Non-linear customer expectation evolution trend.

Fig 13 is one of many non-linear trends in Systematic Innovation. What it shows that things go from a commodity based economy (wheat in this case) to a product based economy (pie) to a service based economy (restaurant) to experience (learning how to cook) to transformation (nutritionist changing your life style) to a sharing economy and finally in 2050 and beyond a caring economy due to the ageing global population.

Traditional taxis are in the service economy or customer expectation box. Uber however has jumped into the experienced based economy quadrant by providing its customer with a peace of mind (intangible

value) through a seamless enjoyable experience going from point A to point B.

On the other hand Uber has also leap frogged into the sharing economy quadrant, similar to Airbnb, by sharing the revenue with the taxi drivers (80% to the drivers and 20% to Uber). This is how Uber has disrupted the traditional taxi business.

6. Uber's Business Model

Fig 14 shows the Uber business model in a nut shell.

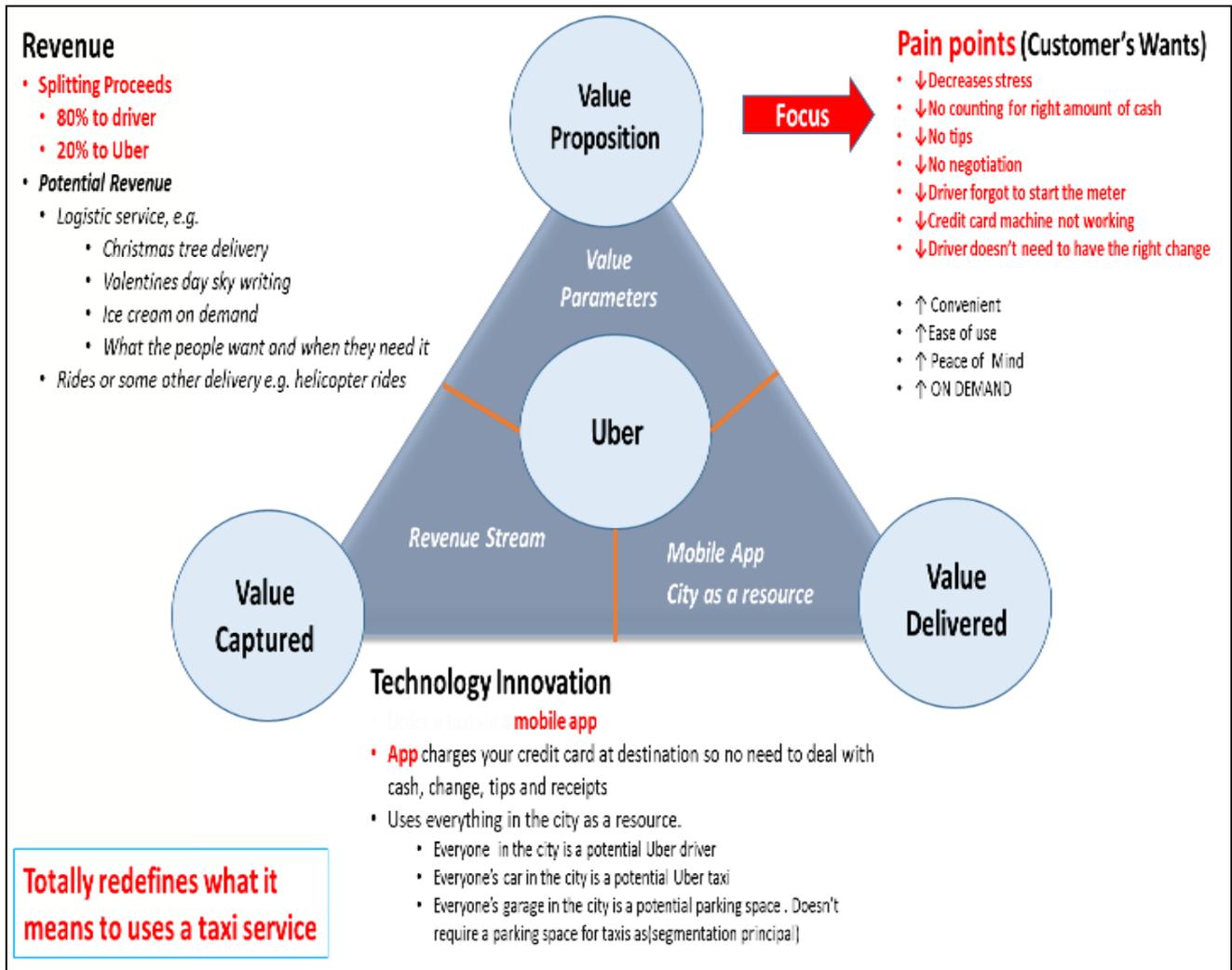


Fig. 14 Uber's Business Model.

Uber's value proposition is made of many value parameters as shown in the fig 14. What Uber does is provide convenience, ease of use, peace of mind and an On Demand service. This has eliminated all the pain points of the customer as shown above. For example, the customer does not have to negotiate with the driver, does not have to give him a tip, etc.

The said value is delivered through a Mobile App and using the whole of the city as a resource as explained earlier.

The value is captured through a revenue split of 80% to the drivers and 20% to Uber. However, the reason Uber is at present, valued at \$40 billion, and people are saying that soon it will be the first \$100 billion company; is because it is a logistic company and not a taxi company anymore. They deliver Christmas trees, ice cream on demand and helicopter services. It could

be that in the next five years courier companies like FedEx or DHL will use Uber to deliver their documents and parcels. Amazon.com may also use Uber for its logistics as it probably won't require warehouses to store their goods. They will order Uber to collect say a book, CD, etc. from the publisher and deliver it to an amazon customer. So, one can now see why Uber is valued at \$ 40 billion and heading towards \$100 Billion.

What the four pillars of Systematic Innovation are saying, is, look at what resources are already available in the system, whether that is in a city, nationally, internationally or globally to resolve a contradiction that provides a function, which is ideal for the customer.

This is what Uber has done with its Experience & Sharing Economy Business Model.

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AUTHOR BIOGRAPHIES



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Jabir Walji is an Innovation manager at Ministry of Public Works Authority (Ashghal) of Qatar. Before joining Ashgha, he has extensive international and cross-sector experience in downstream oil, waste and facility management, sports, marine, health & wellbeing, food, finance, and not-for-profit. Jabir holds an M.B.A degree from Manchester Business School, a Post Graduate Diploma in Sports/ leisure/ Tourism Planning and Development from North West University of London and a B.Sc. (Hon) in Sport Science from John Moore University, Liverpool, UK. His areas of interests include Strategic Art, Systematic Innovation/TRIZ, Design Thinking, Business Models and the application of these in formulating breakthrough strategic concept and direction towards building a disruptive country, cities, real estate, products and services across any industry.