

Research Article

EFFECT OF CORONA VIRUS IN UBER BUSINESS MODEL: EVIDENCE FROM SOUTH ASIA

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ABSTRACT

Technological advancement derived from research developments, technical knowledge, and tools independent of product and service initiatives is shaping the world. It is a crucial factor for organizational success. Uber is GPS based peer-to-peer transportation service network which provides a connection between the driver and passenger. Uber is a low costly, hassle-free and convenient ridesharing system. Uber is mostly considered as incremental innovation but it also disruptive. Uber operates in the unique market segment and also affect the existing taxi market segment. Uber is currently in the growth phase of the life cycle which is running in 633 cities around the world. The COVID-19 pandemic reduced the existing growth of Uber and impact the life of millions around the globe. The economic lockdown restricted the movement and put the social life in static phase. The devastating effect of the virus affects the overall economy, and the severe impact is felt by the ride sharing business. The study uses the information from available public domain and relevant research papers to draw a comparative analysis.

Keywords: Uber, Covid, India, Bangladesh, Pakistan, Nepal.

INTRODUCTION

Taxi is the most common method of public transportation over the years. The service provides point-to-point passenger transport services and delivers a convenient mode of transportation. The fare usually calculated through taximeter where the algorithm uses the distance and time of the car have traveled. Taxi system is regulated by local rules and regulations which varies across different states, countries, etc. The pricing of taxi services is very much controversial and disrupt people to use the taxi services. Some Taxi drivers don't want to go to some places, refuses passengers and violate regulations frequently. It creates a massive problem for the passengers and disrupts the public transportation system. Uber is an on-demand, and peer-to-peer transportation service which uses the Global Positioning System (GPS) enabled smart phones to deliver its service. It is an app based system which works with the GPS to locate the passengers and drivers. The pricing is determined based on an initial pick-up fee, and a combination of distance and time. Uber created the most extensive point-to-point transportation network with lightweight infrastructure. It does not have any vehicle of its own, has no drivers and no visible maintenance costs. The network of Uber relies on peer-to-peer coordination between drivers and passengers, enabled by sophisticated software and a complicated rating system. Uber is considered as a incremental as well as disruptive innovation which breaks a traditional method of passenger traveling and dominance of taxi drivers. Uber's innovative business model is outpacing many of the laws regulating its industry, and while it is going to take the regulatory system some time to catch up. (Moon, 2015) Uber is exploiting a regulatory loophole and positioned itself as a rideshare service. Through this dodge in the regulations, it charges its pricing system based on the demand. It has flexible pricing strategies with various types of vehicles provide ride-sharing services to reduce the supply-demand imbalance of the public transport system. The innovation of ride-sharing service Uber brings the transportation system just under the fingertips of the passengers. Uber is operating in a competitive market and holding a dominating

position in the industry. The direct competitors are Lyft. Curb. Didi Chuxing. Grab. Ola etc. along with many local and regional competitors. Uber operates in the diversified market segment and has a substantial contribution to the economic growth. Uber has increased the consumer surplus significantly and reduced the bargaining power of the suppliers. Uber does not face any strict regulatory framework which allows developing a global rule for itself. Uber provides seamless user experience, transparent fare calculation and tracking system which is loved by the users. Benefits of Route choosing an option, drivers' position and relief from extended waiting period and unavailability of existing taxi service make Uber an accessible transportation system. Lower driver payment, the creation of unfair competition, loopholes in taking responsibilities, etc. are some cons of Uber. Although there are some disadvantages, the technological innovation is making a radical change in the society.

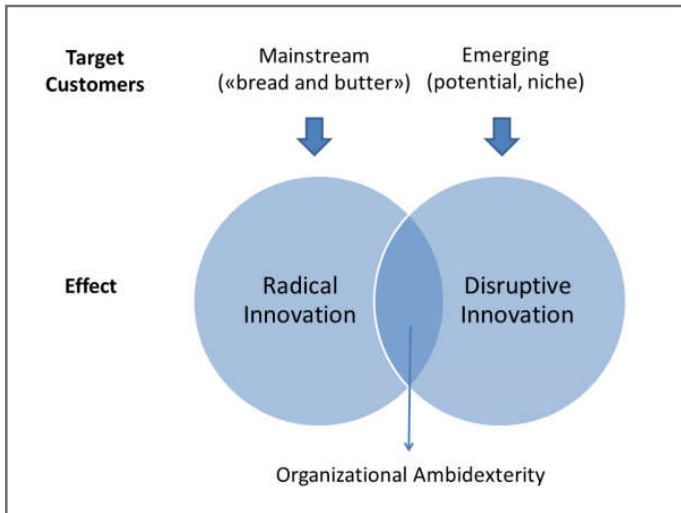
Uber Innovation and Economic Model

Information technology (IT) enabled change is the process of using technology to automate IT functions, develop applications and improve alignment between technology initiatives and business goals. IT-enabled innovation involves identifying technology gaps and risks to allocating IT resources and capabilities to create a more efficient solution of existing market segments. Uber's mobile technology platform synchronized with the GPS technology that allows drivers to navigate passengers to their destinations. Uber smoothen the passenger's movement through its innovative service, and it also solves the geographical transportation problem. A single app is useful for all the cities where Uber is operating its service. The nature of innovation is still yet to reach a certain position. Clayton Christensen (2015) explained his recent article "What Is Disruptive Innovation? In the Harvard Business Review explained that Uber had created a distinct market segment which separates it from being a disruptive innovation. Michael Horn (2016) illustrates that technology can sustain change, improve the existing service or can be used become a feasible business model to make simple, more convenient, or more affordable value proposition than existing offerings. Nicholas Pullman (2015) defines Uber as disruptive innovation although it has some unique features and characteristics. It breaks out problems in the taxi

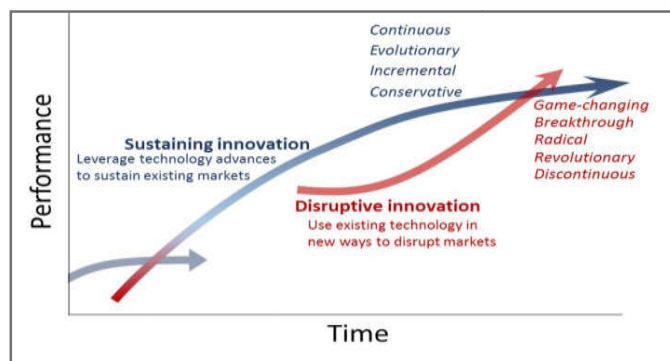
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industry in many cities around the world. The innovation of Uber can be considered as mostly incremental innovation and somewhat disruptive. The Uber customers usually love to ride on cars but don't want to own it. This customer market segment does not directly compete with the traditional taxi market segment. Uber provides flexible, luxurious, and comfortable car service to the passengers who want to have the service in the fingertip. Uber delivers on-demand car services which are directly alternative to rental car facilities. Uber has some disruptive nature as some regular taxi passengers love to ride on luxury cars on less fare than the existing taxi service.

The following graph by Ralph-Christian Ohr, (2014) explains the Uber innovation style.



The IT-enabled innovation Uber is a San Francisco based company operating in the 633 cities around the world. Uber is currently in the growth phase of the life cycle. Uber has invested \$22 billion so far and still investing in new markets. Uber conducted its first expansion at Paris in 2011. Just one year later it started operation Canada, Australia, and England. Uber has reached maturity stage in some areas whereas maximum cities are under the growth stage of the lifecycle. The protest from the existing taxi drivers in many towns hinders the natural growth of the company. The incremental innovation along with disruptive nature fuelled the growth of Uber.



Economic Nature of the Industry

Uber service has a massive implication to the market participants, industries, and the entire economy. It has directly affected taxi service industry, rental service, the auto industry and indirect effect on the regulations, transparency, and accountability. Uber competition can divide into many segments. The incremental innovation nature of ridesharing has some competitors like Lyft, Curb, Didi Chuxing, Grab, Ola etc who are offering the same service. The existence of so many

direct competitors makes the industry highly competitive. Uber is now having a dominant position the sector with the closest competitor of Lyft. Uber service also faces some regional competition throughout the globe. Local companies are developing apps to compete with Uber. Although Uber does not compete directly with the taxi services, it affects the customer base of the existing transport market. Some countries banned Uber services as per the demand of the taxi drivers. All these force the company to face severe competition from various types of competitors. The targeted market segment of Uber is quite diversified. Uber primarily focused on unique market segments where it solved the problems of luxury car service without facing the maintenance charge of car ownership. Uber aims to provide an affordable solution to the existing public transportation network. Through its mobile-based platform, it has developed a country-wide transportation network to provide on-demand car service. Uber offers around eleven versions of its service. The riders' service varies according to the demand and nature of the city. The services differ significantly in price and are classified by the type of car that will be used. (Nicholas 2015). Uber uses the niche marketing strategy for each market segment. For example, UberX provides low-costly car service for up to 4 people whereas UberXL offers similar service for up to 6 people. Uber BLACK service is for the people who love to travel on Black. The traditional taxi service market was highly competitive throughout the years. The entrance of Uber in the market intensifies the competition to a large extent. Uber uses the low price ridesharing platform and increasing the consumer surplus in the industry. On June 25, 2015, the taxi drivers in Paris, France conducted a road blockade to protest against the ride-sharing service (Nicholas 2015). The regulation of the taxi service provides monopolistic power to few companies operating in the market. Federal Trade Commission (FTC) report says, "It appears that taxi regulation has often been designed to protect public transit systems and existing taxi firms from competition" (p. 6). The ride-sharing industry is less regulated and practically implies its own rules. Quinton (2015) of the Pew Charitable Trusts wrote "Ride-hailing companies, which connect paying passengers and drivers through a mobile app, deliver rides like a taxi service. But they're not taxi companies, and states and cities are beginning to regulate them differently". The unregulated nature of Uber makes it flexible to earn a substantial growth.

Implications for the Economy

The Uber service has a substantial contribution to the economic growth. Its low-cost fare allows the passengers to move quickly and conveniently. Uber has increased the consumer surplus significantly and reduced the bargaining power of the suppliers. Although Uber service is very much beneficial for the passengers, it reduces the income of the traditional taxi drivers and rental car service. The self-employed driver's income has increased by 50%. (Gaskell (2017) As Uber is not directly regulated by any state or federal laws the government is also losing taxes, surcharges and other fees from it. Market participants mostly consist of the passengers who travel through the public transportation network. Uber's seamless user experience has created a positive experience in the mind of the customer. Uber offers transparent fare calculation and tracking system which is valued by the users. The pricing of Uber varies according to the car type, peak or off-peak hours which allows the users to understand and choose the movement accordingly. The hassle regarding calling taxi service, extended waiting period and unavailability of the service primarily reduced by the Uber's automated system. Route choosing option and drivers' position can easily be tracked through the application. The number of Uber rides dropped 80% last month at the height of the lockdowns in the US and Canada. Uber lost \$968 million over the last three months, with its adjusted net revenues down 16 percent compared to the fourth

quarter of 2019. Over the entire year, the company reported a net loss of \$6.7 billion, down slightly from the \$8.5 billion it lost in 2019. It brought in less revenue compared to 2019, \$11.1 billion versus \$13 billion likely due to facilitating fewer trips, 5 billion in 2020 versus 7 billion in 2019. Uber had 93 million "monthly active platform consumers," its term for users who take at least one ride on Uber or buy at least one meal on Uber Eats a 16 percent decrease year over year. Uber's shares shrank slightly after its earnings report, but the company still trades at a much higher revenue multiple than Lyft. As there is any regulation for Uber, it is hard to define the responsibility of driver and Uber in case of any Mishaps through riding. Most of the Uber drivers are not professional and highly trained which creates risks of accidents. Uber offers low price service which introduced an unfair competition in the industry. French drivers claimed that the income has fallen by between 30 and 40 percent. (Nicholas 2015) Customer may get accustomed to riding at a short distance using Uber rather than walking which can create a severe traffic problem. Beside this Government is losing money from Uber due to lack of regulation.

Impact in South Asia

The south Asian countries such as India, Pakistan, Bangladesh, Nepal, Bhutan etc are severely affected by the pandemic. India is the 2nd largest country in terms of population. The density of the population is very high in these countries. Uber was performing very well in these countries as most of the people don't have personal vehicle. Due the ride sharing nature people can travel luxuriously with very low costs. These helped Uber to reach 100 million users in south Asian countries within a very short time. But due increase in the Covid-19 in these countries' governments are forced to lockdown the economy and impose travel restrictions. Ride sharing services were banned and Uber witnessed a sharp dropped in the revenue. People are getting jobless and the whole supply chain is damaged. The economies are facing demand and supply shock which has spillover effect in almost all sectors of the economy. (Ahamed, 2021). India is one of the largest economies in the world is witnessing shrinking in its economic growth. The market is crucial for Uber for growth and expansion. To rein in costs amid a loss of business Uber gave up office space in Mumbai and laid off 600 permanent employees in India as part of the firm's global downsizing exercise. Globally, Uber has slashed nearly 6,700 jobs but has resumed fresh hiring for select job profiles. The continuing corona virus restrictions in many major cities continue to be a drag on Uber, which said in a recent financial filing that it derived nearly a quarter of its gross ride bookings last year from just five metropolitan areas. (Strielkowski, 2020).

CONCLUSION

Uber is technological innovation to solve the matchmaking problem between the drivers and riders. This service provides efficient traveling service through low fare, reduce search costs and saves

time. The industry is highly competitive often faced supply-demand gap for many years. Introduction of Uber overcame the problem by creating more supply than existing demand. The success of Uber displays the scope of innovation in both regulated and unregulated market segments. Although it has some negative externality, it reduces the growth of the service enhanced towards a superior travel experience. Reforming the shape of the transport industry can be considered as the success of Uber.

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