

a breeze, while an accelerometer and gyroscope work to keep the device stable until you're done moving it, at which point dual kickstands pop out to let the batteries take a rest. The Double's initial price tag is \$2,500.

The Double has a number of potential applications. It is first and foremost the ultimate tool for colleagues working in separate locations that need to interact with one another. Most workers know how difficult it can be to schedule a call or ask someone to set up a computer or a laptop for a video chat. With Double one engineer or executive can be in Chicago, for example, and if the company has a second facility in New York City that has a Double robot available, the engineer or executive in Chicago can log onto the Double in New York City and literally roam from office to office, interacting with his or her colleagues who are in a different location. There are other potential uses. For example, museums or art galleries could offer virtual tours utilizing Double. The

person taking the tour could log onto one of the museum or gallery Double robots, and then follow the person giving the tour by steering the robot from location to location. The same approach could be used in providing prospective students tours of colleges or universities.

Several large corporations, including Johnson & Johnson and the Coca-Cola Company, are reportedly testing Double for telecommuters and for employees who need to interact with one another but are situated in different geographic locations.

- 14-34.** Based on the material covered in this chapter, what questions would you ask the firm's founders before making your funding decision? What answers would satisfy you?
- 14-35.** If you had to make your decision on just the information provided in the pitch and on the company's website, would you fund this company? Why or why not?

CASE 14.1

Uber: Will It Maintain Its Sizzling Pace of Growth?

• **Web:** www.uber.com • **Facebook:** *Uber* • **Twitter:** *@uber*

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Introduction

Uber is a San Francisco-based start-up that connects riders with safe, reliable transportation providers at a variety of price points in cities across the world. It is growing at a rapid pace. It has expanded from a start-up in 2009 to over 60 cities in early 2014. Some observers say that Uber may be more valuable than Facebook someday. Here's why.

Problem and Solution

Problem. Just in case you're not familiar with Uber, here are the basics. For most people, hailing a cab isn't a pleasant experience. You either stand outside and wave your hand until you catch the eye of a cabbie, or you call a taxi dispatch (if you have their number) and wait for what seems like forever until a cab arrives. You ride to your destination in a vanilla cab. You then have to scramble to count out the right amount of cash plus a tip. The driver never seems to have the right change. Very few people see this as an enjoyable experience.

Solution. With Uber, you download an app to your smartphone and enter your credit card information. When you need a ride, you access the app, and

choose one of several grades of cars, from a luxury SUV to a Toyota Prius. You indicate where you want to be picked up. Drivers in Uber's network are circling the surrounding area, waiting for a fare. The app is integrated with Google maps so that you can see how far the nearest drivers are from you. The app will identify the driver that will pick you up, and you can watch the car approach. While you wait, you can look at your driver's information, including his or her name, ratings, and license plate number. The driver will usually send a text to confirm the reservation. When the car arrives, you hop in and are taken to your destination. When the trip is over, the app charges your credit card. Uber drivers are not allowed to accept tips. Uber's pricing is similar to metered taxis. Most trips are priced based on the distance traveled.

There are two classes of Uber cars. The regular Uber service features upscale cars and SUVs such as Lincoln Town Cars, Cadillac Escalades, and Mercedes-Benz S550 sedans. In 2013 Uber introduced a less expensive tier of cars called UberX. UberX cars are Toyota Priuses and similar models. Uber doesn't employ drivers. It acts as a liaison between people who need rides and drivers who qualify to be part of its network. Uber conducts background checks on all of its drivers and provides them with a smartphone preloaded with the

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Uber app. For an example \$30 fare, Uber keeps about \$6.00 (20 percent) and the driver gets the rest. All Uber rides are protected by the driver's insurance policy as well as Uber's corporate policy.

The attractiveness of Uber is that it has completely taken the friction out of the experience of buying a ride. No more hailing cabs, no more plain-vanilla cars, no more fumbling for change to pay. The ride is an enjoyable experience rather than a hassle.

Uber

Uber was founded by Garrett Camp and Travis Kalanick. Kalanick is the driving force behind the company's design and growth. It launched in San Francisco in 2009, and arranged its first rides in June 2010. Six months later, it had more than 3,000 users and had facilitated between 10,000 and 20,000 rides. Its initial target market was the tech community, which is typically quick to embrace new things. San Francisco is also known for a spotty taxi industry, so an alternative garnered attention. Uber grew largely via word of mouth. It had a certain "cool" factor in that early adopters could impress their friends with the ability to call a certain type of car from their phone with a couple of taps. The firm also benefited from the fact that many of its early users talked up the service on social media. According to some reports, 95 percent of Uber riders heard about the service from other Uber riders.

Although Uber has grown rapidly, there are methodical aspects to its growth. It grows city by city. Each new city has a launch team, which forges partnerships with local organizations, creates events that promote Uber's service, and reaches out to local businesses. It typically offers one to two weeks of free rides in a new community, to kick-start its service. In each new city, Uber has the challenge of building a two-sided marketplace. It has to recruit both riders and drivers. On the driver side, it actively recruits both independent operators and car service owners to participate in its service, offering sign-on bonuses and ongoing incentives. It does not require an exclusive arrangement. As a result, a car service owner can maintain his or her service and drive for Uber too.

Uber has stirred up controversy. As it enters new cities, it has been sued numerous times, primarily by taxi-industry advocates and local governments, trying to protect their existing taxi cab industry. In most cases, it has successfully fought off the suits, but not everywhere. Uber is currently banned in Miami, Florida, and Austin, Texas. It was forced to shut down in Vancouver, Canada. A Vancouver regulatory agency ruled that Uber was a limousine service, and the minimum charge for a limousine ride was \$75, regardless of the distance of the trip. That made Uber uncompetitive. In most cases, Uber has prevailed because of public support for its service. In Washington, D.C., for example, a regulatory agency tried to pass a law to prohibit on-demand sedan services, which was an attack on Uber. Uber users raised such an uproar on social media that the objection was quickly dropped. In some European cities, taxi cab drivers have picketed airports and deliberately tied up traffic to object to Uber entering their communities.

Uber has made one strategic move that has irritated riders. It recently implemented a policy referred to as surge pricing. During rush hour and other times of peak ridership (like Halloween or New Year's Eve), it increases its prices. In some instances, fares increase to several times their normal level. The idea behind surge pricing is to reach an economic equilibrium by attracting more drivers. In many cities, it's difficult to get a cab at peak times. There are just too many riders seeking a fixed number of drivers. Surge pricing encourages a larger number of Uber drivers to make themselves available at peak times, because they can make more money. Uber feels the practice is necessary and works, but some customers see it as price gouging.

A tragic incident happened in December 2013. An Uber driver accidentally struck and killed a six-year-old girl, and injured several others. Although the driver was not carrying Uber-arranged passenger at the time, the girl's family filed a wrongful death suit against Uber, claiming the driver was using Uber's mobile app at the time of the accident. The accident and lawsuit have provided additional ammunition to those that oppose Uber, arguing that the service is inherently dangerous.

Uber has not had difficulty raising money. It has all the ingredients that professional investors look for, including a disruptive business idea, rapid growth, a large potential market, and aggressive plans for expansion. According to Crunchbase, Uber has raised the following rounds of funding:

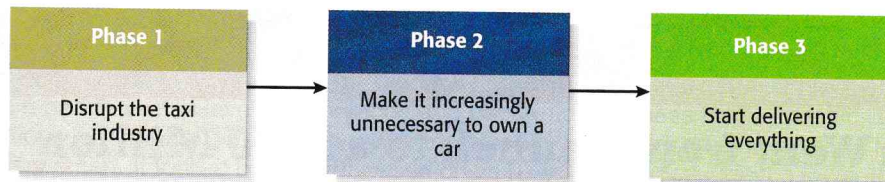
- \$200,000 seed funding (Aug. 2009)
- \$1.3 million angel round (Oct. 2010)
- \$11 million Series A round (Feb. 14, 2011)
- \$37 million Series B round (Dec. 7, 2011)
- \$258 million Series C round (Aug. 23, 2013)
- \$1.2 billion Series D round (Jun. 6, 2014)

Its stable of investors is also impressive, including Amazon CEO Jeff Bezos, Goldman Sachs, Google Ventures, Fidelity Investments, and Benchmark Venture Capital.

Uber's Aggressive Plans for Growth

The size of the investments in Uber, and the bold prediction that Uber may someday have a larger market capitalization value than Facebook, are driven by its aggressive growth plans. The consensus is that Uber is hoping for three distinct phases of growth, each of which is bolder and more ambitious than its predecessor. Phases 1 and 2 have already begun, with Phase 3 hopefully to follow. The three phases are depicted in the figure below.

Phase 1: Disrupt the taxi industry. Uber is out to disrupt or kill the taxi industry. It simply sees itself as a better solution for getting people from point A to point B quickly and safely than taxicabs. At the time this case was written in the summer of 2014, the firm was operating in 22 countries and 60 cities—an amazing feat for a company that launched in 2009. By all accounts it is well-run, well-funded, and is growing its infrastructure at a pace consistent with its growth. It's also extremely



Uber's Three "Hoped For" Phases of Growth

smart. For example, Uber has lined up \$2.5 billion in outside financing for low-interest car loans for UberX drivers. That will make it possible for up to 200,000 drivers to buy their own cars at very low interest rates, under the condition that they use the cars on the Uber network for the duration of the loan. If they drop out of the Uber network, their interest rate will balloon for the remainder of the loan. This strategy helps Uber in two important ways. It will add to Uber's supply of drivers and will enhance the stability of its driver force. If this experiment works, Uber may repeat it and add even more drivers. The more Uber drivers, the more cities Uber can expand to, the shorter the wait times for Uber riders, the lower the cost per ride, and the more efficient and profitable the entire system becomes.

Phase 2: Make it Increasingly Unnecessary to Own a Car. As Uber becomes more ubiquitous, and the cost per ride goes down, there will be less and less need for people to own cars. In areas where Uber is present and pickup times are quick, this is already starting to happen. While Uber's most obvious competitor is taxis, interestingly a large number of Uber users never take taxis. They use Uber instead of driving their car, particularly when they think parking will be a hassle or will be exorbitantly expensive. Some observers see Uber as part of an overall movement called the "death of the ownership society." The problem with owning a car, advocates of this view would say, is that it sits idle most of the time, so it is uneconomical to own. Uber would like people to eventually think in terms of "buying a ride" to get from Point A to Point B rather than owning and driving a car to cover the same distance. To make this work, Uber will need to have a dense enough presence that people can get rides quickly and reliably to cover the distance they need to travel.

Phase 3: Start Delivering Everything. The third phase of growth is the most exciting. Uber would like to grow beyond providing rides, and become a transportation network for all kinds of deliveries, including food, prescription drugs, retail products, etc. Uber is often compared to Amazon. Amazon started as a bookseller in 1994, and quickly realized that the efficient warehousing and shipping infrastructure that it had built could be used to sell all kinds of things to consumers. So the firm branched out, and it now sells items as diverse as kitchen utensils, tools, and paper towels. Uber could theoretically do the same. Once its network of drivers is sufficiently dense, along with transporting people, it could start delivering nearly anything. This ambition is the reason Uber recently changed its tagline from "Everyone's private driver" to "Where lifestyle meets logistics."

There are also futuristic versions of what Uber may someday look like, which surpass Phase 3. One of Uber's principle investors is Google Ventures. Google is working on self-driving cars. Use your imagination to envision a world that would combine self-driving cars with Uber's ability to dispatch and track vehicles efficiently and effectively.

Challenges Ahead

Uber is not without compelling challenges. The popularity of its service has attracted competitors. Sidecar and Lyft are well-funded rivals that are competing toe-to-toe with Uber in many markets. The taxi industry, which Uber is bent on killing, will not go down without a fight. In many areas, regulators and advocates of the traditional taxi industry are upping their legal challenges to Uber and its service. How this will ultimately play out is unknown. The press is currently on Uber's side, primarily because the company is pro-consumer and delivers a high-quality product. If it becomes too disruptive, however, and starts killing off local delivery services, local courier services, etc., along with taxis, how the press and public in general will react is anyone's bet.

Discussion Questions

- 14-36. Uber's organic or internal growth to this point in the firm's life is quite dramatic. The following statement appears in this chapter: "Effective though it can be, there are limits to internal growth." Given its striking internal growth to date, does the statement from the chapter apply to Uber? Why or why not?
- 14-37. The top five reasons new products fail are presented in Table 14.2. If Uber were to fail, which of these five reasons would be most likely to explain the firm's failure? Why?
- 14-38. Some firms might find Uber to be an attractive acquisition candidate. Why would this be the case? What type of firm or firms might be interested in acquiring Uber?
- 14-39. If Uber were to consider participating in a strategic alliance, what type of firm might be an appropriate partner for Uber and why? If you were a consultant, would you advise Uber to form a strategic alliance as part of its growth efforts? Why or why not?

Sources: Wikipedia, Uber, www.uber.com, accessed July 7, 2014; K. Roose, "Uber Might Be More Valuable Than Facebook Someday. Here's Why," *New York Magazine*, available at <http://nymag.com/daily/intelligencer/2013/12/uber-might-be-more-valuable-than-facebook.html>, posted on December 6, 2013, accessed on July 7, 2014; GrowthHackers, "Uber—What's Fueling Uber's Growth Engine?," available at <http://growthhackers.com/companies/uber/>, posted on October 22, 2013, accessed on July 7, 2014.