

directly to the customer's credit card. This means that no cash changes hands, which is a major plus for drivers who did not like to carry large quantities of cash (there is a long history of taxi drivers being robbed by riders). The fee is based on time and distance, as determined by the Uber application using the GPS capability of the driver's mobile device. Under the initial model, the fee was split between the driver, who kept 80%, and Uber, which got 20%. When Uber started its service in 2010, the company was charging 40 to 100% more than a similar trip using a taxicab. However, over time, the price differential between Uber cars and regular taxicabs fares has declined substantially.

Uber does not own cars. Instead it relies upon a network of established, licensed limousine drivers and companies that wish to be part of its system. In effect, the Uber app allows limousine's to be transformed into a service that can be hailed from any location, albeit by an app rather than hand signaling. Uber relies greatly on data analytics to determine the best locations for drivers to wait in order to speed up response time to customer requests for rides. The more data Uber gathers, the better its predictive models, the more optimal its placement of vehicles, and the higher its vehicle utilization.

Uber also used data analytics to pioneer the use of what it calls "surge pricing."²¹ Instead of using fixed pricing as do conventional taxi services, Uber adjusts prices for a ride depending upon the state of demand. For example, prices have been known to surge on New Year's Eve. Similarly, if there is an unforeseen event such as a snowstorm that makes everyone want a car at the same time, prices will go up, often dramatically. There have been reports of Uber fares increasing to as much as seven times the normal level during periods of peak demand. In turn, the higher prices attract more Uber vehicles onto the road, and prices drop back down toward normal levels. Uber argues that a benefit of this system is that it encourages more supply at periods of peak demand, and visa-versa. However, there have been some reports of grumbling on the part of customers who find that *they are paying unexpectedly high prices. Conversely, if Uber's network of drivers responds quickly to price signals, dramatic prices surges should be a very transitory phenomenon.*

An added benefit of the Uber app is a feature that allows riders to rate drivers, which translates into an

implicit guarantee of driver reliability based on prior reputation. There is a corresponding feature on the driver's app, which enables them to rate customers and red flag and avoid troublesome clients.

Limousine and other private car owners have been attracted to the Uber model by a number of factors. First, the Uber app has enabled limo drivers to circumvent regulations that prohibit them from being hailed on the street. As such, it has increased demand for their services. Second, the app increases vehicle utilization, which drives more revenues to the vehicle owner. Third, owners of the vehicle benefit from the surge-pricing methodology that enables them to charge more than regulated fares at times of peak demand. Fourth, the fact that no cash changes hands and that payment is guaranteed when a ride is booked increases the safety of the driver, as does the client-rating feature on the driver's app. Fifth, the Uber system means that drivers can work flexible hours, driving when they want to rather than when a taxi company tells them they must take a shift.

There have been reports of Uber drivers earning multiples of what the driver of a regulated taxicab could earn. In early 2014, Uber suggested that while a typical taxicab driver could earn \$30,000 a year, an Uber driver working a 40-hour-week could earn nearly \$91,000 a year in New York, and \$74,000 in San Francisco.²² Attracted by such financial inducements, in 2014, the company claimed that 20,000 drivers a month were signing up with Uber worldwide.

Some financial journalists have questioned Uber's claims about driver income. Uber's estimates were based on a sample of drivers who drove over 40 hours a week. The earnings figures also excluded the cost of gas, insurance, parking, maintenance, repairs, and paying for tolls. One journalist concluded that in order to earn \$75,000 a year driving for Uber in San Francisco, a driver would have to work 58 hours a week.²³

Expansion Strategy

Uber began offering its service in June 2010 in San Francisco under the name UberCab. New York was added in May 2011. By April 2012, the company was in seven U.S. cities, Paris, and Toronto. Two years later, Uber was operating in 130 cities in 36 countries around the world. Initially, Uber limited its service to drivers with high-end, limo-type cars. In San Francisco, Uber explicitly targeted members of the

tech community in its early marketing efforts, sponsoring local tech and venture capital events and providing free rides to attendees. Uber's bet was that its service would immediately resonate with this demographic, who would rapidly spread the news via word of mouth and social networks. According to CEO Travis Kalanick:

Uber spends virtually zero dollars on marketing, spreading almost exclusively via word of mouth. I'm talking old-school word of mouth, you know at the water cooler in the office, at a restaurant when you're paying the bill, at a party with friends—"Who's Ubering home?" Ninety-five percent of all our riders have heard about Uber from other Uber riders. Our virality is almost unprecedented. For every 7 rides we do, our users' big mouths generate a new rider.²⁴

One of Uber's business development managers elaborated on this:

With Uber everything is very local-focused as transportation is a local topic. For that reason we have an operations team on the ground in all the cities where Uber exists, and that team is working with both local drivers and local clients to grow the business there.

We've also found that our growth is driven substantially by word of mouth. When someone sees the ease of use, the fact that they press a button on their phone and in under 5 minutes a car appears, they inevitably become a brand advocate. We've also done our best to reach out to folks who are influencer in our markets, who obviously have a stronger reach and bigger audience.²⁵

To drive rapid growth, Uber picked cities that have what Kalanick refers to as "accelerants." These accelerants indicate a concentrated need for Uber's service and include (1) lots of restaurants and nightlife, (2) holidays and events, (3) weather, and (4) sports.²⁶ For example, in Chicago, a city with lots of nightlife, intense weather, and numerous sporting events, Uber's initial viral growth was double what they normally experienced. Special events and holidays also provided an opportunity to showcase Uber's model. Uber's ability to deliver rides on New Year's Eve in

San Francisco, a city notorious for its lack of taxis, drove spikes in new ridership. Kalanick has also noted that Uber is getting better at local market entry over time:

Every city, every subsequent city that we go to we're getting better at rolling the city out and growing the city faster. And so a lot of the cities where there's a constrained number of taxis, no liquid black car market, those are the cities where we launch and things explode from the start. We have other cities where there's tons of taxis, in some cases way too many and in those situations often the quality of service being delivered is really poor, so we go in there and explode as well. But there's all kinds of different cities in terms of regulatory, and in terms of what the industry looks like, an industry which we're disrupting in a substantial way.

We think that cities deserve to have another transportation alternative. It sounds crazy to have to say that but you have to do that because you have incumbent interests which are often trying to curtail innovation and curtail the sort of transportation alternatives that might compete with their existing business. And, because of that, it requires us to take a very local approach to how we go after a city. We have launchers that go into [cities] . . . and turn nothing into something. I like to say they drop in with parachutes and machetes [and] get highly involved with the suppliers, people who own cars and run car services, and really just make sure that we can launch a service that is high quality from the start. Being local and speaking with a local voice is important when you're doing transportation and means you know what's going on for the city.²⁷

To achieve rapid expansion, Uber needs to be able to quickly build a network of drivers in each city it enters. The company certainly touts the financial and safety advantages of working for Uber, but it is also taking other actions to make sure there are plenty of drivers available. Most notably, in December 2013, Uber lined up \$2.5 billion in outside financing for low-interest-rate loans for Uber X drivers with Toyota and GM (more on Uber X later in this case).

This should 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 those cars on the Uber network for the duration of the loan. In effect, drivers are lock in for the duration of the loan unless they want to see their interest rates balloon. Reportedly, drivers have to agree to two financing rates, one that reflects the cost savings of them partnering with Uber, and one that doesn't.²⁸

Regulatory Responses

Uber had not been operating in San Francisco long before there was rumbling among taxicab companies that Uber might not be legal. A taxi driver raised objections against Uber at a city Taxi Advisory Council meeting. Among the concerns were the following:²⁹

- Uber operates much like a cab company but does not have a taxi license.
- Its cars don't have insurance equivalent to taxi insurance.
- Uber may threaten taxi dispatchers' way of making a living.
- Limos usually have to book an hour in advance, by law, while only licensed taxis can pick someone up right away, but Uber picks people up immediately, without a license to do so.

On October 20, the San Francisco Metro Transit Authority and the Public Utilities Commission of California issued a cease-and-desist order against the company. Uber, however, continued its service under threat of penalties including fines of up to \$5,000 per instance of operation, and potentially 90 days in jail for each day the company remained in operation past the order.

Undeterred, Uber stated that it would work with the agencies involved to understand their exact concerns and make sure that the service was in compliance. On the company blog, the following statement was posted:

Uber is a first to market, cutting edge transportation technology and it must be recognized that the regulations from both city and state regulatory bodies have not been written with these innovations in mind. As such, we are happy to help educate the regulatory bodies on this new generation of technology, and work closely with both agencies to ensure our compliance and keep our service available.

However, the company did quietly change the name of its service from UberCab to Uber.

The dispute between Uber and regulatory authorities in California simmered on for 3 years. During this time, Uber continued to operate, and indeed dramatically expanded its service. At one point, CEO Kalanick joked that he probably had 20,000 years of jail time in front of him.³⁰ In 2013, influenced by evidence of strong public demand for Uber's service, the California Public Utilities Commission struck a deal with Uber, lifted the (ignored) cease-and-desist order, and eliminated fines.

As Uber expanded its service, what had happened in California occurred in cities around the United States, and then the globe. In Washington D.C., for example, where existing taxi services were rated as poor by many residents, demand for Uber cars rapidly took off after the company started service in December 2011. The local regulatory authority, The DC Taxicab Commission, deemed the service illegal. True to form, Uber continued to operate. At one point, the Commission conducted sting operations against Uber, hailing cars via the Uber app, then impounding the cars and ticketing the drivers. Responding to intense lobbying from D.C.'s 150 taxicab companies, in mid-2012 the City Council drafted legislation to fix the price for Uber's service so that it would be five times the minimum cost of cabs. Uber CEO Kalanick responded with a social media campaign, urging D.C. customers to sign a petition and email council members to protest the legislation. The council members, swamped with thousands of emails, quickly withdrew the legislation. In a major victory for Kalanick, in short order a new bill was drafted and passed that exempted Uber from regulation by the Taxicab Commission.³¹

In Seattle, after initially ignoring Uber, the City Council responded to its increasing popularity by passing an ordinance that limited the number of Uber drivers to 150. At the time, Uber already had 1,000 drivers in the city. The City Council said that it was concerned about the safety and insurance coverage of Uber cars. Council member Kshama Sawant, the Council's only socialist, argued in favor of the cap as a means to protect traditional taxi drivers. However, in Seattle, city ordinances can be suspended if enough citizens sign a petition requesting this. The day after the ordinance was passed, a group that received some \$400,000 in funding from Uber and similar services submitted more than 36,000 signatures to the city

clerk's office, more than double the required number to suspend an ordinance. In July 2014, the City Council voted 8-1 in favor of legislation that legalized Uber and similar services, and removed any caps on the number of drivers.³²

In New York, a city with a long tradition of limo services, Uber initially operated unimpeded. However, when it tried to expand operations to include New York's traditional yellow cabs, the city's Taxi and Limousine Commission (TLC) stepped in, telling cab owners that it had "not authorized any electronic hailing of payment applications for use in New York City taxicabs," and further that "drivers and owners are reminded that violations of Commission rules can lead to fines, and in some cases, the suspension or revocation of their license."³³ Interestingly, the TLC took this position despite strong interest among taxi drivers. Uber responded by withdrawing its yellow taxi service, but its limo service continued to operate.

In London, taxi drivers responded to the growing popularity of Uber with a day of protests, stopping in the middle of streets and causing significant congestion. The protests backfired, as Uber reported a surge in app downloads and registration by London residents. In Paris, where similar protests by taxi drivers also took place, the Senate passed a bill that requires online car service drivers to return to their headquarters or a parking garage between each client, unless they have a prior reservation—a requirement that would substantially reduce Uber's ability to respond in a timely manner. The bill would also prevent companies from showing live locations of their cars on a map. The bill was scheduled for a full vote in the National Assembly in Fall 2014. In Brussels, Uber was banned after a court ruled it did not have the appropriate permits to operate in the city. In Berlin, the chairman of the Berlin Taxi Association won an injunction against Uber in April 2014, barring the company from operating there. However, the ruling is not being enforced in Berlin while Uber awaits the outcome of an appeal.³⁴

Commenting on legal attempts to stop Uber, CEO Kalanick argues that they are classic example of regulators trying to stifle innovation. Kalanick also asserts that Uber's strategy of marching into new cities without asking permission is necessary. "If you put yourself in the position to ask for something that is already legal, you'll never be able to roll it out . . . the corruption of the taxi industries will make it so you

will never get to market."³⁵ At the time of writing, Uber is fighting multiple cease-and-desist orders in cities across the United States and around the world, as well as regulatory attempts to ban or hamstring the service. Despite the sustained legal assault, Uber has so far only exited one city, Vancouver, Canada.

Competition

No good idea goes long without imitation, and Uber soon found itself facing several rivals, including most notably Lyft. Lyft is a privately held company based in San Francisco backed by venture capital. By mid-2014, it had raised over \$300 million in financing. Logan Green and John Zimmer launched Lyft in Summer 2012. It was originally conceived as a local service of Zimride, a ridesharing service the two founded in 2007 that was focused on long-distance ride sharing, typically between cities. Lyft uses a smartphone app that facilitates peer-to-peer ride sharing and electronic hailing by enabling passengers who need a ride to request one from the available community of drivers nearby.

Lyft differs from Uber in that its drivers are regular citizens using their own cars. Lyft drivers are distinguished by a pink, fuzzy mustache placed on the front of their vehicles. Drivers and passengers can rate each other on a five-star scale after each ride. The ratings establish the reputations of both drivers and passengers within the Lyft network. Ratings are displayed on the Lyft smartphone app, enabling drivers to avoid bad customers, and customers to avoid drivers with poor ratings. Lyft initially did not charge fixed prices, but instead relied upon voluntary donations to the driver. This changed in November 2013, when the company said that it would institute a fixed price schedule, with a 25% surcharge for peak periods. As with Uber, payment is automatic, made through the Lyft app, and Lyft takes 20% of the fare.³⁶

By mid-2014, Lyft had established itself in 60 cities in the United States. Like Uber, Lyft has run into significant regulatory headwinds. Indeed, if anything, Lyft has faced more regulatory opposition because its drivers use their own cars. To counter claims regarding safety, Lyft insures each driver with a \$1-million "excess" liability policy. Any driver with an average user rating of less than 4.5 out of 5 stars is also dropped from the service.

Lyft faced the same headwinds as Uber in California, and struck a similar deal with regulators in mid-2013. In New York City, the TLC, which had declared Lyft an unauthorized service that had not demonstrated compliance with safety and licensing requirements, initially blocked it from operating. The restriction was lifted in July 2014 after Lyft agreed to use licensed, commercial drivers within the city. To grow its network in New York, Lyft was reportedly offering a guaranteed \$10,000 a month to drivers with a license from the TLC who would agree to work 60 hours a week, and \$5,000 to those willing to work 40 hours a week.³⁷

A smaller competitor, Sidecar, began in San Francisco in 2012. Sidecar, a peer-to-peer ridesharing service, is similar to Lyft in many respects. It, too, uses a smartphone app to facilitate matching drivers to customers. One major difference is that Sidecar lets drivers set their own prices, while riders can select the car they want based on price and vehicle model. In mid-2014, Sidecar was operating in eight U.S. cities.

PRODUCT EXTENSIONS AND PRICE CUTS: UBER X

Uber started out using traditional, black limousines. In July 2012, it created a new service category, Uber X, which allowed Uber drivers to use vehicles such as Toyota Prius Hybrids and SUVs like the Cadillac Escalade. By 2014, Uber X drivers were also using basic sedans like the Toyota Camry or Honda Accord. Initially, the pricing for Uber X cars was a \$5 base fee, with a \$3.25 per mile charge thereafter, making Uber X 35% cheaper than Uber's "black car" rates. The introduction of Uber X was seen as a competitive response to the emergence of Lyft as a low-cost competitor.³⁸

In June 2013, Uber reduced the price of its Uber X service in San Francisco by 25%. In October 2013, it announced similar fare reductions in Los Angeles, San Diego, and Washington, D.C. At the time, Uber stated that its fares were 18 to 37% cheaper than hailing a traditional taxicab, depending upon location. Although Uber compares its prices to traditional taxicabs, its price reductions have often come in cities where Lyft has recently launched its service.

For example, Uber launched its Uber X service in Indianapolis and St. Paul just a week after Lyft introduced its service to riders in those cities. Uber also offered a free month of service to riders in those cities.

Uber dropped its prices again in January 2014. To push back against resistance from drivers, it argued that the price cuts meant more rides, and thus greater revenue. Uber announced a further round of 25% price cuts in Summer 2014 for its Uber X service in select cities, including San Francisco. These cuts are meant to be for a limited time only. However, Uber also stated that drivers would still pocket 80% of the original fare *before* the cut. This implies that, in some cases, Uber was now paying drivers more than they earned. For example, a 25% cut implies that a rider will now pay \$11.25 for a ride that previously cost \$15. But the driver will still keep 80% of the original \$15 fee, which means that Uber has to pay the driver \$0.75 to make up the \$12 salary for the driver. Under the new pricing scheme, Uber X is now cheaper than taxicab service in many locations. For example, a fare from Union Square to the Mission District in San Francisco costs \$11 via taxicab, and \$6 by Uber X.³⁹ On July 7, 2014, Uber dropped its New York City fare by 20%, making Uber X cheaper than a taxi in that market.

CONCLUSION

Uber is a private company. Its financials remain a closely guarded secret and the source of some speculation. In August 2013, well-known tech writer Kara Swisher reported that Uber was on track to make \$125 million in revenue in 2013. In December 2013, a news source gained access to what appeared to be a leaked screenshot of Uber's financials dated November 20, 2013. This suggested that the company was on track to generate revenues around \$210 million in 2013. The same screenshot indicated that Uber had received 12 million ride requests and processed 89,976 new signups in the last 7 days.⁴⁰ In June 2014, Kalanick stated that revenues were at least doubling every 6 months. If true, Uber may be on track to having an annual revenue run rate of \$800 million by the end of 2014.

The company declined to comment on these numbers, but with private investors valuing the company

at around \$18 billion in mid-2014, this kind of rapid growth does not seem unreasonable. Indeed, in mid-2014 Uber's global rollout seemed to be accelerating. Early August brought launches in Düsseldorf in Germany, Ft. Lauderdale, West Palm Beach, and Richmond in the United States, San Paulo in Brazil, and Saigon in Vietnam. With the San Paulo launch, Uber was now available in the 10 largest cities of the 10 largest economies in the world. By early 2015, Uber was claiming that it served more than 200 cities in 54 countries.

In December 2014, Uber announced that it had raised an additional \$1.2 billion in financing from a consortium of hedge funds and wealthy private investors. The new round of funding valued the company at a staggering \$40 billion—higher than the market capitalization of three-quarters of the S&P 500. This was followed by an announcement on January 21, 2015, that Uber had raised an additional \$1.6 billion in convertible debt from wealth management clients of Goldman Sachs. Uber indicated that the funds were to be used for “strategic investments.”

As Uber expanded, it continued to run into regulatory headwinds. Following allegations that an Uber driver had raped a passenger in India, the Indian Government issued an order asking local authorities to stop all app-based taxi services until they are registered with local transportation departments. Authorities in Thailand and Vietnam also declared that Uber was an illegal service, although it continued to operate in both countries. In December, a judge temporarily banned Uber from operating in Spain following complaints from local taxi drivers that the service was damaging their industry.

As 2015 began, numerous questions swirled around Uber. Was the private valuation reasonable? How big could the company ultimately get, and how profitable would it be? Would regulators be able to keep Uber at bay, or would the victories it had won in California, Seattle, and Washington D.C., become commonplace? How would incumbent taxicab companies respond? Would Lyft and other competitors emerge as a strong threat to Uber? And perhaps most tantalizingly, could Uber grow the way Amazon had, starting in one category (books), before branching out into other sectors? As several commentators have noted, Uber is potentially far more than a ride-for-hire service. It's really a logistics company with the

ability to digitally connect customers with commercial transportation to move not just people, but a range of physical goods.⁴¹ Once Uber has you summoning cars from your phone, the logic goes, it can use that same technology to arrange for all sorts of other deliveries such as food, clothes, and Christmas trees (which it experimented with in 2013). What then, is the true upside here, and what are the risks?

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