The Competition for the Future of Ride-Hailing

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The ride-hailing industry has quickly emerged over the last several years as a major business and its flexibility has enticed many people to join as drivers. However, the two major companies in the United States, Uber and Lyft, have had trouble making a profit and have often been at odds with their drivers. As it currently stands, the industry is most likely unsustainable and there are very different directions the industry could take. Consequently, the companies and their drivers have been competing to influence the future of the industry. Upon analyzing the situation in the United States, a clear pattern emerges that the companies are interested in a driverless future while drivers are focused on improving current conditions and unconcerned about autonomous vehicles.

Review of Research

Yaraghi and Ravi's (2017) research on the sharing economy, of which ridesharing companies are a prominent part, found that it "is difficult for any one company to form a monopoly" and that its flexible nature is a big selling point for riders and drivers. However, they do not dive into further specifics, like the industry's low entry barriers, for why the business cannot be monopolized. Furthermore, Yaraghi and Ravi discuss how different countries/localities are questioning the legality of rideshares as they are seen as a "bandit taxi-service" illegally attempting to avoid regulations with their classification of drivers and other practices. They explore some legal battles occurring worldwide for issues such as traffic congestion and safety concerns rather than just studying driver classification in the United States.

Malhotra's (2019) research on the future of gig work similarly concluded that the drivers are dissatisfied with the pay rate and distrust all the algorithms. Some drivers say that the

companies occasionally pay them less than what they earned and give them shorter distance routes that take longer because they are paid by the mile. For the companies, he suggests that competing platforms must continue improving services "without taking on the liability of treating gig workers as employees" in order to win the market. His work does not investigate how the companies are trying to utilize autonomous vehicles in order to avoid the liability of drivers in general.

Part of Kessler and Zhang's (2016) research focuses on the benefits and drawbacks of Uber's development of autonomous vehicles. They propose a hybrid solution where AV usage is slowly increased with the potential eventually to replace all drivers and "become more popular than ever imagined." Their work to examine why Uber is considerably motivated to develop driverless technology is missing several additional benefits such as avoiding the consequences of California's Assembly Bill 5. Rosenblat and Stark (2016) found that Uber and its algorithms have much control over the drivers and the drivers have "little control … over critical aspects of their work." Their work, however, is missing an update on some increased control that Uber gave California drivers in order to comply with new state legislation.

Financial Troubles

Uber and Lyft have been struggling financially and profits have been elusive. In the first three quarters of 2019, U.S. Securities and Exchange Commission (SEC) filings show that Uber lost over $7.6 billion (Uber, 2019a). During the same period, Lyft lost over $2.3 billion (Lyft, Inc., 2019a). These trends are nothing new as both companies have lost billions over the course of the last few years. For example, Uber lost over $4 billion and $3 billion in 2017 and 2018, respectively (Hussain, 2019). Perhaps partially due to these losses, investors lost confidence in

both companies after they went public in early 2019. By the last day of trading in 2019, Uber's stock, priced at $45 for its initial public offering (IPO), was down to $29.74 per share. (Uber, 2020). Lyft fared even worse when it ended the year at $43.02 per share after opening at $72 (Lyft, 2020). Despite losing money, both companies are still investing hundreds of millions in research for autonomous vehicles with Uber passing the cumulative $1 billion mark before 2019 (Bergen, 2019).

A Competitive Market

Competitive advantage in ride-hailing is low, in part because ride-hailing is not patentable. As of February 2020, Uber held almost 400 patents, many involving technology for their autonomous vehicles or for algorithms to improve their services (USPTO, n.d.), but none are for the service itself, which is not protected.

In ride hailing, barriers to entry are low and, according to Somerville (2016), economists perceive the environment as one of "perpetual competition in a business with relatively few barriers to entry" after interviewing 11 economists. Drivers are plentiful, and as independent contractors, they are easy to hire. In fact, an informal 2017 survey of 1150 rideshare drivers, 67% worked for at least two ridesharing companies (Campbell, 2017). Thus, the labor pool is greater than the number of drivers alone would suggest. Furthermore, the market is highly competitive. According to RideGuru (n.d.), there are almost 90 rideshare companies throughout the world, which may miss some of the smaller ones or new start-ups. As a counteraction, new rideshares are being created with distinctive features to separate themselves from the rest of the market. For instance, a Toronto start-up named DriveHER (DriveHER, 2018) advertises as an app designed to "provide a safe space for women and people who identify as women."

To compete in this saturated market, Uber and Lyft have been trying to win customers at any cost, even by subsidizing the rides to keep fares artificially low. For instance, Uber estimated in early 2019 that Lyft was offering discounts that "covered as many as a third of its trips" as it increased its market share to 34% (Efrati, 2019). In response, Uber resorted to increasing its own discounts to win back riders. In its filing to go public, Uber stated that there were "heavy subsidies and discounts by our competitors" and the company "felt compelled to match or exceed in order to remain competitive" (Uber, 2019b). This is just another instance in their longstanding price war to attract customers.

The two companies also seek to expand the number and quality of services offered. For instance, Uber has been developing what it calls a Liquidity Network Effect, a cycle by which more drivers and services reduce wait times and fares, which attract riders who in turn attract more drivers (Uber, 2019b). To drive the cycle, Uber plans to "use incentives, such as promotions for Drivers and consumers, to attract platform users on both sides of our network" (Uber, 2019b), justifying subsidies and driver bonuses. It is spending billions of dollars to expand the market and attract as many customers and drivers as possible. Similarly, in 2018, Uber and Lyft spent $1.5 billion (Korosec, 2019) and $300 million (Lyft, Inc., 2019b), respectively, on research and development, and introduced services such as Express Pool and helicopters as they save time and, as in the case of Express Pool, money. Uber and Lyft have both shown they are willing to spend and lose billions to build their businesses.

The ridesharing companies will most likely not be able to monopolize the market and be completely dominant players. The Amazon archetype of keeping prices low to win market share and reduce the competition before finally raising them to a sustainable level, is unlikely to work. First, the service is a luxury, barring the subsidization, that is only used by those willing to pay

for it. Rides currently are heavily subsidized and drivers are accustomed to them. According to Uber driver Linda Simonyan, "[r]iders are used to bottom prices and are not willing to pay more" (Siddiqui, 2020). A price adjustment experiment at Sacramento International Airport reinforces this when drivers found earning more than the base fare difficult. This statement is further reinforced by some experiments adjusting the price at Sacramento International Airport that saw drivers finding it difficult to earn more than the base fare (Siddiqui, 2020). If one company raises prices, then it risks losing customers to their competitor, given how easily customers can switch apps (Yaraghi & Ravi, 2017). If both companies raise prices, then the door will open for new players in the market, especially given the low barriers to entry.

Assembly Bill 5

California's Assembly Bill 5 (AB5) is threatening a restructuring of North America's current ridesharing business model. The bill, signed into law in September 2019, redefines the differences between employees and independent contractors in an attempt to "ensure workers who are currently exploited by being misclassified as independent contractors instead of recognized as employees have the basic rights and protections they deserve under the law" (Assembly Bill 5, 2019). As a result, Uber and Lyft will have to consider their drivers as employees, something they are working hard to prevent. The prospective hourly wage and employee benefits could result in Uber reducing employee flexibility by creating shifts and avoiding less popular times and places. Canon (2019) says that there is precedent as "Lyft and Uber have both restricted app-use in low-demand areas of New York" after city legislators set a minimum pay floor and a limit on the number of drivers. Furthermore, Uber sent messages to drivers stating "[r]ecent changes to California law could threaten your access to flexible work with Uber" (Caen, 2019).

Each company pledged $30 million to fight the law and has helped propose a new ballot measure that could be voted on in November 2020 if enough signatures are collected (Rapier, 2019). The proposal allows drivers to continue working as independent contractors and receive benefits such as a guarantee of 120% of minimum wage, $0.30 per mile for car-related expenses, and healthcare subsidies in addition to creating new customer and driver safety protections (Rapier, 2019). Since the law went into effect, Uber has adopted new features, such as letting drivers choose their own payment rates and reject rides without penalty, as an attempt to comply by proving that the drivers are contractors with freedom to control their ride experience (Paul, 2020). However, Veena Dubal, a University of California-Hastings associate professor of labor law, believes these changes will not "help Uber drivers to pass the three-part test at the center of AB5" (Paul, 2020). If this is the case, then ridesharing services eventually need to treat drivers as employees and provide hourly pay and other benefits, barring future legal developments.

Regardless of whether Uber and Lyft's new proposal is adopted or AB5 is kept intact, the amount of money needed to spend on drivers will increase and ultimately hurt the companies and riders. In fact, Barclays analysts have stated that "an adverse ruling on the contract workforce issue [passing AB5] would potentially bankrupt both Uber and Lyft" as they estimated it could immediately cost at least $290 million for each company (Rapier, 2019). The new proposal would result in additional expenses since the companies would need to pay drivers more than they did prior to the passage of AB5. In either scenario, customers would also suffer financially as increased fares would be needed in order for the companies to afford new driver costs. The current changes to circumvent AB5 have not been beneficial for customers as Uber's CEO Dara Khorowshahi has stated that "these changes are resulting in higher prices to the customer" and "the service levels for riders have gone a little worse" (Kokalitcheva, 2020). Uber and Lyft

cannot simply leave California as both are headquartered there and the state has almost 40 million people (US Census Bureau, 2018), which is over 10% of the domestic market. Additionally, even if services were discontinued, as Canon (2019) states, New York and other states are considering bills similar to AB5, indicating the companies will need to deal with the issue eventually.

The Struggle for Improved Driver Benefits

Rideshare drivers are not happy with their current state of the market. Leaked internal data that shows "only around 3% of people who sign up to drive for Uber are driving a year later" (Efrati, 2017). This number changes to 25% when you consider only those who made at least one trip (Efrati, 2017). This seems fitting considering less than 50% of drivers in a 2019 survey were satisfied with their job (Campbell, 2019a). These figures are consistent with a survey that found only 1% of drivers indicated career growth as the most important factor for driving (Campbell, 2017) and another that found only 16% were worried about losing their jobs to autonomous vehicles (Campbell, 2019a). These figures suggest most drivers consider employment as a driver as temporary and not a career.

One main selling-point of the job is its flexibility, which is exactly why Uber used this advantage when trying to get drivers to fight AB5. This is further described by the founder of the "RideShare Guy," Harry Campbell, who said "[a]fter thousands of conversations with drivers," "one of the main reasons they value this work is flexibility" (Campbell, 2019b). However, as a Los Angeles driver named Karim Bayumi said, "what's the point of flexibility if you have to work so much more, without getting paid more or overtime?" (Rideshare Drivers United, 2019). Backing this belief is a Princeton study of 1100 drivers which found the median profit from

driving is $3.37 per hour after expenses (Zoepf et al, 2018). A 2019 survey of 911 drivers found that 52.9% considered pay as the most important factor compared to 36.7% for flexibility (Campbell, 2019a). Additionally, Uber stated that it has an "aim to reduce Driver incentives to improve our financial performance" and it "expect[s] [d]river dissatisfaction will generally increase" consequently (Uber, 2019b).

Given the current pay situation, it is understandable why rideshare drivers worldwide have organized strikes and protests against their companies. For instance, drivers in Los Angeles formed an international association named Rideshare Drivers United. This group organized a strike on May 8, 2019, and in their press release, demanded "major reforms to the industry to make it fair, dignified, and sustainable" (Rideshare Drivers United, 2019) with specific demands to reverse recent wage cuts and a minimum pay of $25 per hour. Beyond protesting, over 385,000 drivers from two states sued Uber complaining they were misclassified and are actually employees and should have received health insurance, paid sick time, and workers' compensation. (Hawkins, 2019). In 2019, Uber settled these class-actions for $20 million to be distributed among approximately 13,600 drivers (Hawkins, 2019). On the other hand, 66% of drivers want to remain independent contractors (Campbell, 2019a). Remaining an independent contractor does not mean they cannot fight for increased benefits such as a minimum hourly rate.

Deterrents to Profitability

The utilization of drivers instead of autonomous vehicles threatens the profitability of ride-hailing companies. First, drivers are already the costliest aspect per mile driven and receive more than 70% of the fare for some companies (Uber, 2020). Second, recruiting and approving drivers to work for the platform with several safety checks costs money. In fact, a CB Insights

report (2018) found that Uber needs three months to earn back what was spent on acquiring a driver. Combining this with high driver turnover rates only places an added burden on the company. In addition, a 2018 report by the U.S. Energy Information Administration (2018) found that autonomous vehicles are very closely connected with electric vehicles and can have higher energy efficiency than passenger vehicles. Projections show energy consumption is reduced, meaning that autonomous vehicles can save fuel costs. Additionally, sexual harassment is a major problem with the current system. Uber released a report stating it had over 3000 reported sexual assaults in the United States in 2018 (Conger, 2019). As such, women and even men may not be comfortable taking a rideshare or driving for one. For example, there are several Reddit threads featuring users describing creepy encounters, with some stating they never used the app again. Personal experience is not necessary to prevent riders from using rideshares, as one user explains, “I actually stopped using Uber myself because my little sister was nearly assaulted by a driver” (insertunusedname, 2018). Using autonomous vehicles instead of drivers would be advantageous for customer safety and potentially increase the number of people willing to try ridesharing, ultimately boosting the growth of the companies.

Conclusion

The evidence reveals why Uber and Lyft are investing an inordinate amount of money to develop autonomous vehicles, despite already losing a great deal of money. First, the costliest aspect of their business plan would be eliminated and enable them to start making a profit; they can keep all fares, eliminate costs to recruit and retain drivers, and save on fuel. Second, the impending salary and benefit increases that drivers and politicians are fighting for would be avoided, along with the savings from the associated legal battles. Uber and Lyft’s current pace of financial loss is unsustainable and has the potential to accelerate with increased spending on

drivers. If cost increases become excessive, other competitors, given the relatively low barriers to entry, are likely to appear and follow the same business strategy of subsidizing prices to undercut them and gain market share. Should this happen, it could open the door to another costly spending battle that resembles the current one between Uber and Lyft. Third, potential customers who are currently avoiding the services due to their discomfort with human drivers and the potential for harassment might be attracted. Finally, they would be able to more efficiently allocate cars to fit fluctuating demand. With these savings and increased revenue, the companies could keep fares low while still earning a profit, a benefit for shareholders and customers.

Currently, the drivers are fighting diligently to maintain their flexibility while increasing benefits. However, most seem unconcerned about their growth and there is already a low retention rate, implying that most drivers do not need the job. For those who do, vehicle autonomy will not replace all jobs and some drivers could potentially stay with the companies in a different role. Thus, the drivers are more concerned about improving their present situation than about fighting the rise of autonomous vehicles.

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