

Uber Business Model - Strategic Analysis Role of Management Accountant...

Coverage...

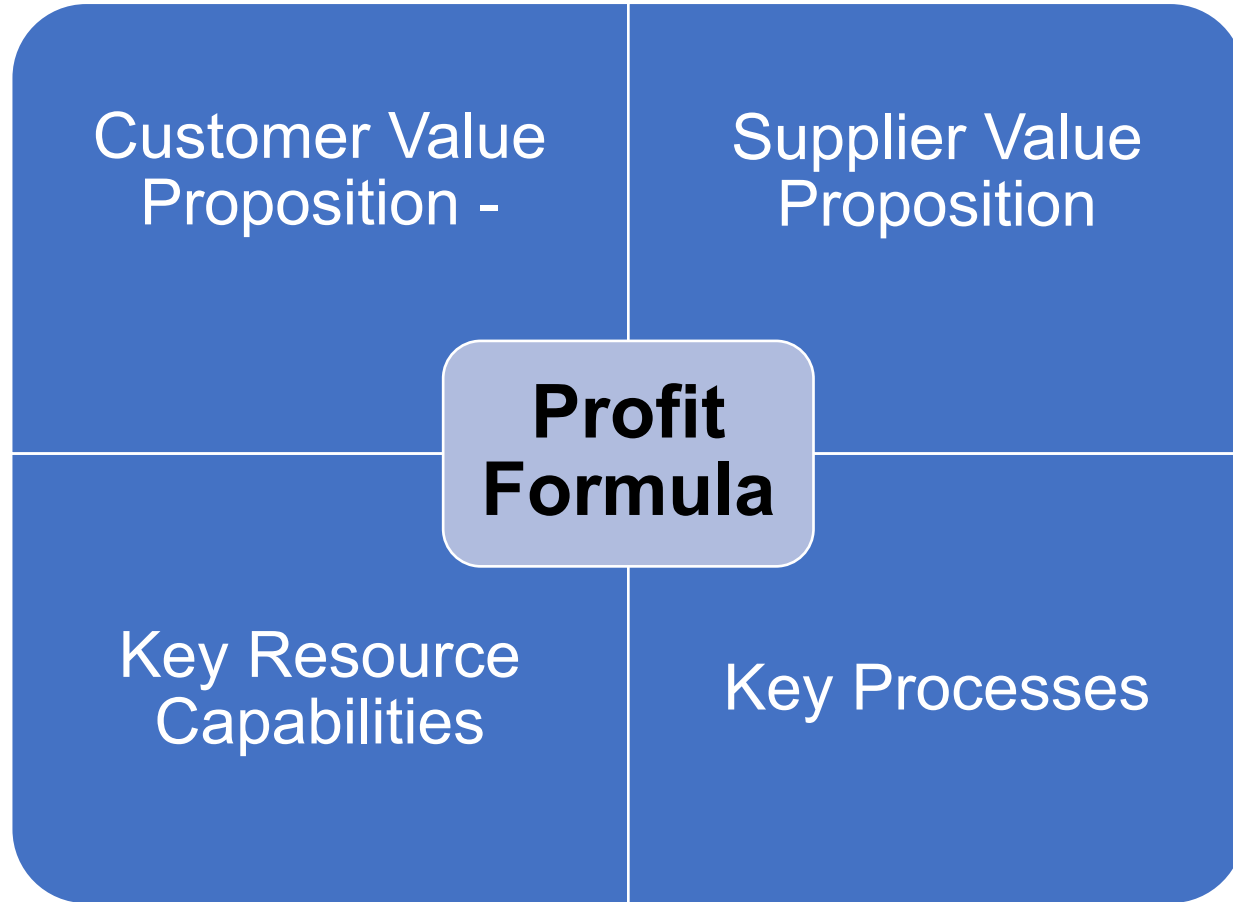
- What business the Uber is in?
- Business Model – Interlocking Elements
- Biz. Scaling and Monetization
- Challenges to Management Accountant
- Broader lessons

Uber ...

**In the Business of matching Riders to Drivers....
leveraging Technology Platform.**

**It changed the business landscape of taxi industry –
Unorganized market to Organized**

Successful Business Model - Interlocking Elements ...



The success lies in developing complex interdependencies of its Elements. Major changes to one of its elements will affect the others and the whole

1. Customer Value Proposition (CVP) ...

Customer Segment : Time Sensitive Customers... Not Price Sensitive

Elements of Value to Customer :

- **On demand Car services – Choice of Location, Time and Vehicle**
- **Certainty of service**
- **Simplicity - Ease of booking (Information and Interactions)**
- **No Negotiation of rates**
- **Cleaner Vehicles**
- **Safety (Vehicle Condition)**

2. Suppliers' Value Proposition (SVP) ...

Elements of Value to Driver (Supplier) :

- **Utilization of idle Capacity**
- **Freedom of Choice – to accept / Reject the trip**
- **Dynamic Pricing – No need to negotiate with the customer**
- **No credit Risk**
- **Incentive for doing more trips**
- **Recognition for performance based on customer feed back**

**To ensure consistent level of service, more drivers are required than riders.
Un intended outcome of this is Driver Commoditization**

3. Profit Formula...

- Revenues** : Income from Customers (Received by Uber)
- Cost Structure** : Vehicle Running cost Incurred by the driver
: Moved from Internal to the Company to External
- Margins** : Determined by Uber – collected from Driver
- Resource velocity** : No limitation – Matching to the increased demand

Challenge : Distribution of value created in the chain.
Both Riders and Drivers should perceive that they have reasonable share of value.

4. Resources Capabilities...

Operational and Managerial Competencies to create and deliver value.

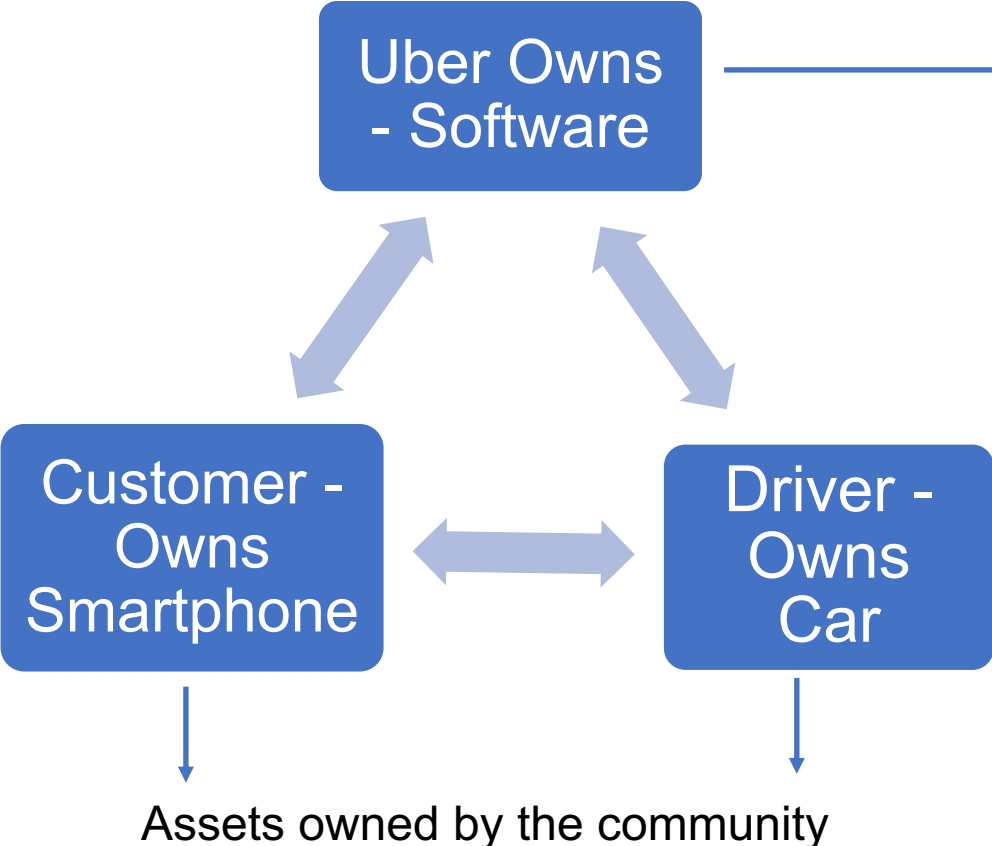
- **Connect with local drivers and to motivate**
- **Building Data base (e.g. AWS) and Technologies to use (eg. Machine Learning / Artificial Intelligence etc.) for Analysis and decision making**
- **Scalability for Rapid growth**
- **Coping with Peak demands**
- **Repeatability at every market place (Local Global)**

5. Process Capabilities...

Standardization of processes ... Ability to increase the transaction efficiency

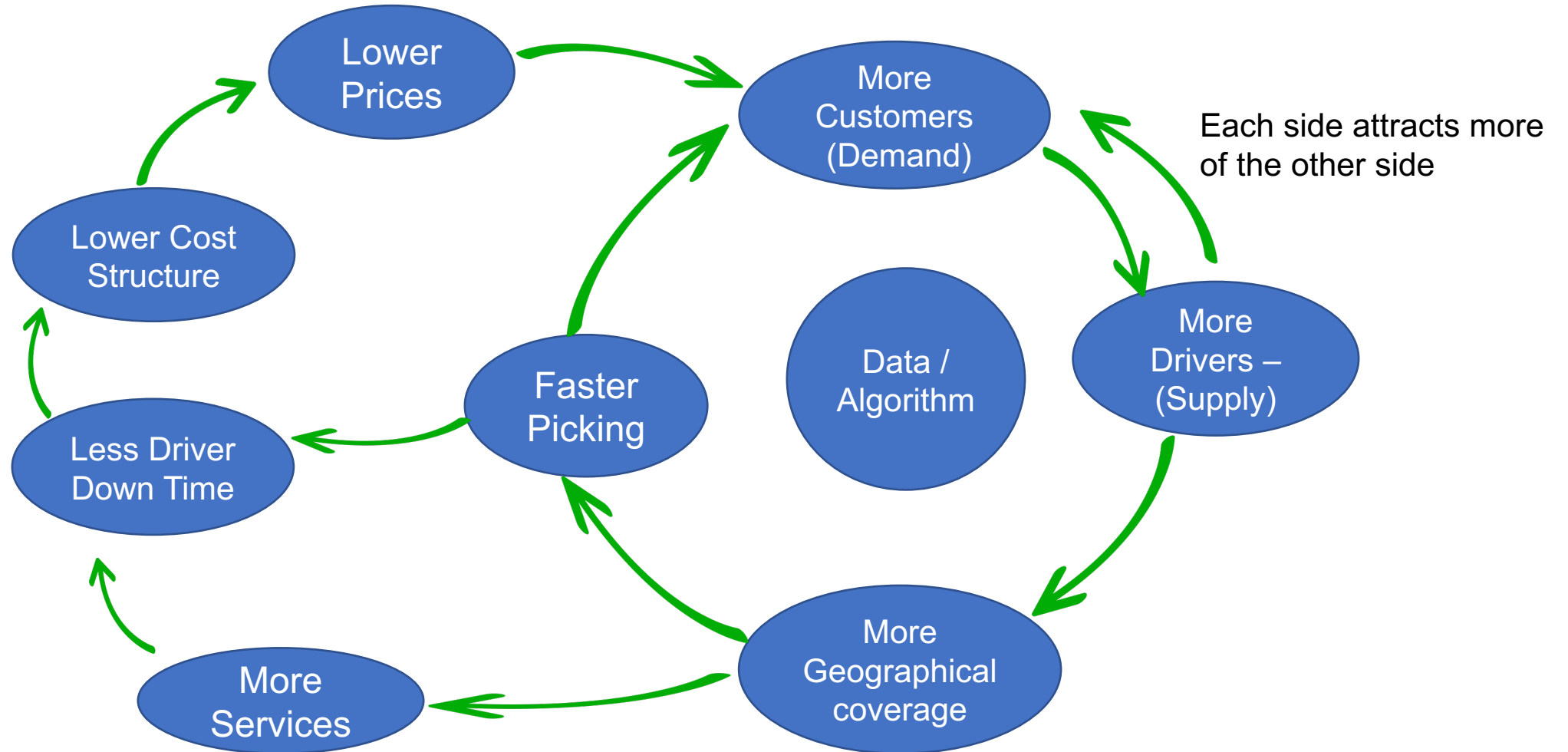
- **Transaction Cycle time.. Information and Interaction**
- **Cash flow Monitoring and payouts to drivers**
- **Tracking the transactions –**
- **Data Analysis**
- **Replicate the process for adjacencies**

Key Assets...



- Changed the landscape of taxi car services :
- Un organized Market to Organized
 - Offering expensive services at lower price.
 - Accessible to every one
 - Focus on using the Assets out side the organization

Strategy Visual Look : Self Reinforcing Cycle of growth ...



Reliance on Economies of Scale

- Promotional offers to Riders (Demand side)
- Subsidies to Drivers (Supply side)

Uber's Business : Scaling and Monetization...

Some Investors argue Uber is over valued. Reliance on Current Negative Profits.

Others argue

- Negative profits are natural result of New Business Model.
 - Loosing money – Investments to acquire customers
 - Business - scalable and Economies of Scope (Adjacencies)
 - Market expansion due to network effects
 - Reliance on Expected Cash Flows in the Future
-
- High growth rates make the platform more attractive to investors.
 - Rapid scaling - Core approach of Uber's platform strategy

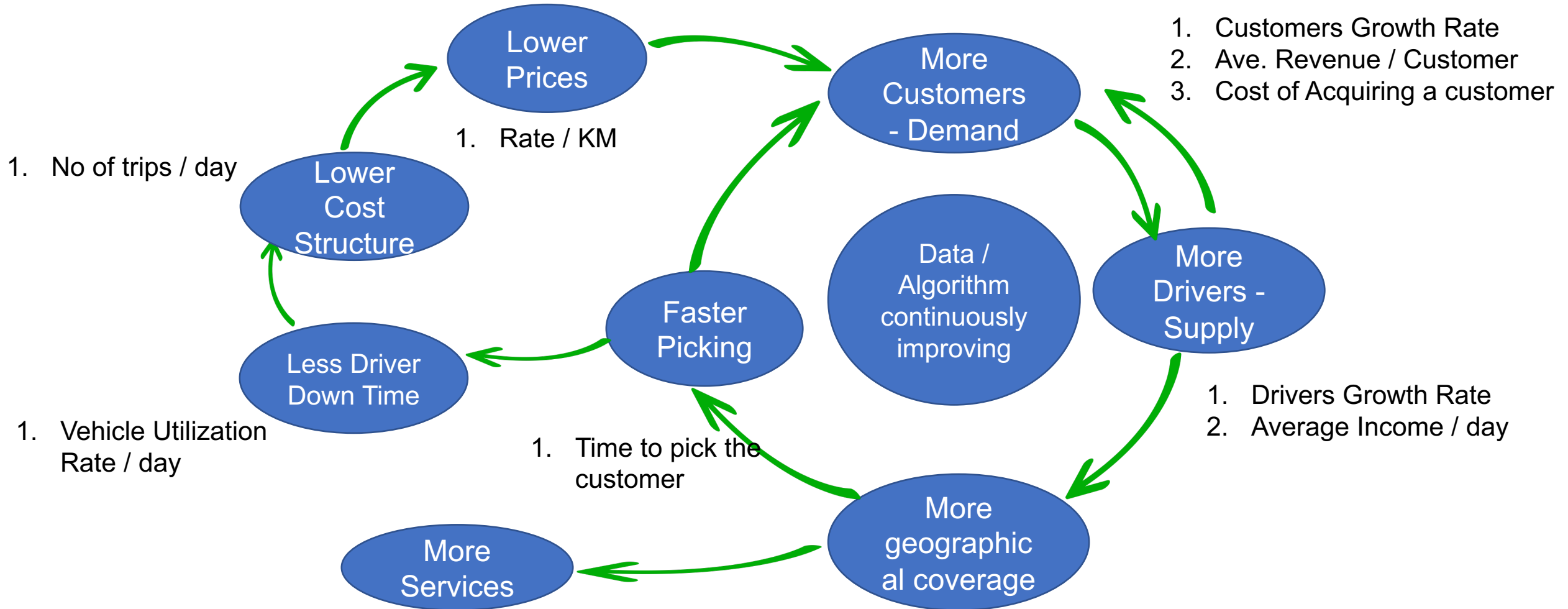
Uber : Why Huge losses...

1. Customers : Promotional Offers to Customers.
Shift in focus from Time Sensitive segment to Price sensitive.
Dynamic Pricing ... not in sync with the above strategy
Result ... Lower Revenue
2. Drivers : Subsidies to acquire and retain... Result.. High Cost structure
3. Margins : Negative... Selling Price lower than Cost of Servicing.
More volume more losses

Challenges to Management Accountant...

- Business Plans – Validation of Assumptions, Evaluation,
- Resource Mobilization – Capital needs
- Data Analysis : for Competitive Positioning / Pricing / Transaction wise PNL
- Investment Analysis - Supply Side / Demand Side – Propensity of each to drive business growth.
- Performance Measures – Lead Indicators to track

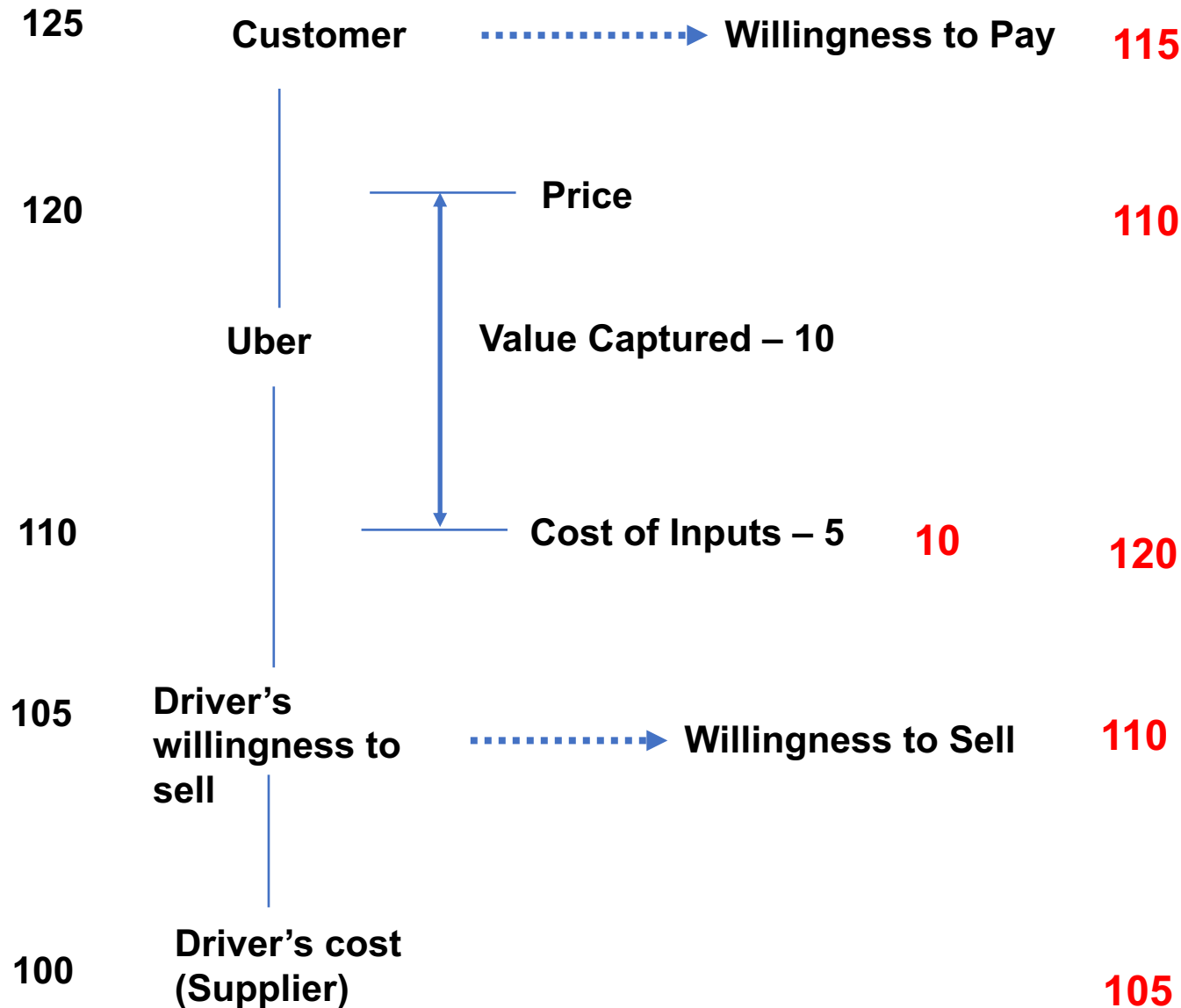
Some Performance Measures : Lead & Lag



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Ubers' Value Stick (Hypothetical)...



Envisaged:

Value share between the parties:

Customer	(125-120)	5
Driver	(105-100)	5
Uber	(120-110)	10

Executed :

Value share between the parties:

Customer	(115-110)	5
Driver	(110-105)	5
Uber	(110-120)	(10)

Broader lessons from Uber...

Market size : No significant Increase. Limited opportunities to grow. Cutting share from others.

Competitive Advantage : Approach should be either Differentiation or Cost Leadership
Struck in the Middle?

Adjacencies : Focus on Ride Sharing biz. Not as a platform business.
Adjacencies opportunities .. Under utilized.

Drivers : Drivers are an essential element for success of the business.
Instead considered them as an independent service providers. Unrest?
More number of Drivers than Riders ...lower income .. Willingness to Sell?

Pricing : Algorithm Pricing ...should attract the unlikely customer.
Peak pricing is deterrent for Customer loyalty.
Lifetime customer value (LCV) not relevant. Promotional Offers?

Q & A...

Thank you