TOMORROW'S CHALLENGES

HOW TO AVOID BEING 'UBERIZED'

A LESSON FROM THE TAXI INDUSTRY

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Uber is hitting headlines daily. Whether you love it (as most customers do) or hate it (as most competitors do), you can't argue with its success. The rideshare company is valued at more than Avis, United Airlines, and Fiat combined. Few people regarded the taxi business as one that was ripe for disruption, and yet that is exactly what is happening in hundreds of cities across 50 countries.

Uber has found a winning formula… a clear value proposition, ease of use, high service levels, price transparency, choice, and attractive rates. Not surprisingly, its approach is spawning a new generation of copycat services across the globe.

This is clearly bad news for traditional taxi companies, and many of them have complained bitterly about the impact that rideshare companies are having on their businesses. In San Francisco, for example, average monthly trips per city taxi have plummeted 65% from 1,424 in 2012 to 504 in 2014.

However, just complaining is not going to solve their problems. So, how should traditional taxi companies respond?

According to the 7 disruption response strategies developed at IMD's Global Center for Digital Business Transformation (DBT center), taxi companies should start by proactively blocking Uber and other new entrants using whatever legislative and regulatory means available to them. Though this strategy may seem defensive and anti-competitive, it can be very effective. Recent actions by taxi companies have succeeded in suspending rideshare operations like Uber in Spain, France, and South Korea, as well as in multiple cities across the U.S., India, and Germany. In many jurisdictions, taxi companies have a strong case. Uber habitually flaunts safety regulations, driver background checks, business licenses, and insurance coverage.

While working to legally block rideshare services like Uber may be effective in the short term, it is unlikely to remain so for long. Although South Korea has temporarily suspended rideshare operations, legislation is currently being prepared to allow Uber-like services in the country. Meanwhile, in other jurisdictions such as Toronto, Canada, legal challenges are failing. Thus, taxi companies must also pursue other strategies.

DBT center research suggests that one such strategy is to learn from the disruptors and upgrade core service levels. Evidence indicates that there is significant room for improvement for many taxi companies around the world. In 2014, the city of Seattle conducted a study to compare the quality of rideshare companies with traditional taxis. The results were shocking. Rideshare companies were found to be faster (70% came within 5 minutes vs 40% for traditional taxis), easier to use (only 10% of riders preferred the cash system predominantly used by traditional taxis), and better (80% of rideshare users rated the experience as very good vs just 10% for the traditional taxis). Traditional taxi companies must take this as a wakeup call. They need to provide faster and more reliable pickup and improve the ride experience, using the strength of their existing capabilities, including brand, experience and knowledge to differentiate themselves from the upstarts. These improvements require active investment.

Most likely, however, blocking through legal means and investing in improving current capabilities will not be sufficient to hold off the new entrants in the long term. We believe that traditional taxi companies should also actively invest in the capabilities that are disrupting them. For example, they should develop or significantly upgrade e-hailing apps. They must improve their payment process – many rideshare users note the elimination of tip awkwardness as a key benefit. And, perhaps the most bitter pill of all to swallow, they must look at their pricing structure. The biggest weapon in the Uber arsenal in most jurisdictions is their ultra-low cost option, called UberX or UberPOP. At some point, traditional taxis have to look at their fees and make adjustments. They need to accept higher costs through additional investment, and lower revenues through reduced prices. Yes, disruption hurts!

While traditional taxi companies are improving their core services to compete with the challengers, they can also start to look for other growth opportunities in profitable niche areas such as livery services, handicapped travel, secured delivery, and so on, that are hard for disruptors to imitate. Some of their lost revenue in the core business can be replaced by these profitable niche areas. In some cases, they may want to redefine their business model and move into adjacent areas such as courier services, or food delivery.

Finally, traditional taxi companies need to consolidate. Uber has a global brand, while most taxi companies remain local. Surprisingly, there are no global taxi brands. It would make sense for taxi companies to consolidate, pool capital, share investment costs, build regional and global brands, and compete with Uber on similar terms.

Uber’s dominance is not inevitable and traditional taxi companies are bruised, but not beaten. Fighting disruption is difficult, but it can be done.

The seven disruption response strategies

Disruption Response Strategy	**Relevant for traditional taxi companies?**	**Example response to the rideshare threat**
Block the disruptor	Yes	Work with lawyers and regulators to block rideshare companies using all available legal means.
Harvest from the core	Yes	Improve core business areas; differentiate on brand, experience, local knowledge, etc.
Invest in disruption	Yes	Use money from current operations to invest in disruptive technologies. Build digital capabilities like e-hailing apps and advanced payment options.
Disrupt yourself	Yes	Explore low price options.
Find a profitable niche	Maybe	Offer high end, difficult to duplicate services, like medical or secure transport
Redefine the core	Maybe	Initiate courier services? Pizza delivery?
Exit the business	Maybe	Merge with other taxi companies to gain the scale and scope to compete with rideshare companies globally.

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