When Innovation Hits a wall

The theory of disruptive-innovation states that for a new application (or "app") to be truly successful, it has to start or sink its routes right at the bottom of the market. It then should be gradual yet relentless in moving up-market, disrupting and replacing the established players in the territories they occupy.

Nothing in modern times could better exemplify this path than the US ride-hailing app company Uber.

At its modest Silicon-valley headquarters, in March 2009 Uber Technologies, developed a smart-phone app, with the simple ideal of connecting drivers to passengers. This simple model allowed the Uber app to become quickly popular in over 633 cities across the world, including London.

However, each new market Uber entered, it faced its fair share of adversity and hurdles. The biggest of which came not in the form of other competing apps, but in the form of the inescapable, highly unionised taxis, who have operated in their respective cities for decades, and in some cases like London, for centuries.

A recent adversity for the app-company has come in the form of Transport for London (TFL), a local government body, responsible for who is allowed to operate transport services and means across London, rejecting its application for a license renewal. From amidst a host of allegations currently aimed at Uber, TFL took the stance the company is not a "fit and proper" private car hire operator to operate in and around London.

Referring back to the theory of disruption, a new product or service entering a market with a fresh and disruptive idea, is bound to become a threat to the established products and services. Hence, will face resistance in various forms.

To better understand the scenario Uber has landed in, and blind-sided by the instigators who saw Uber as a threat, a deeper exploration of the market conditions Uber operates in is needed.

Cosmopolitan cities like London will always be an attractive market for any transport facility. Huge traffic of commuters daily travelling between cities, for work, leisure and other reasons, there will always be a demand for services that can help commuters move around quicker, easier and cheaper.

Traditionally, taxi or minicab services have been offered by usually one predominant operator, similar to the black-cab service in London. And then smaller, dispersed private-hire mini-cab firms.

However, with the advent of the smartphone, and the growing number and variety of applications ("apps") it carries and supports, it was only a matter of time till an application was developed that aimed to provide a simpler alternative to traditional cab hiring.

Uber's internet-based platform, is easily installed on any device or phone, anywhere in the world. Allowing customers access to a cab-service anywhere in the world, and hence, creating a global service. A customer would "Uber" in Paris, exactly how he would "Uber" in London.

London has played host to the heavily unionised black mini-cab drivers and operators, who have vastly controlled the majority of London's cab-hire market, especially in the central London areas, for many years. The mini-cab business in cities like London is usually structured with a main or dominant operator, with then smaller, dispersed independent private-hire operators. The majority of the industry's profits (some 80-90%) are generated by the main black-cab operators, with the remaining by smaller, independent firms. This semi-monopolistic market structure, which usually deeply rooted in traditional practices and norms, is usually blindsided to a threat from a technologically focused substitute, like Uber. Business practices are more focused on tradition, rather than anticipating change and implementing newer systems. For example, black-cab drivers spend several years gaining their "knowledge", which involves a thorough understanding of the roads, routes, major buildings and surrounding areas.

The strong and loyal adherence to outdated practices, will usually force a blind-eye to the emergence of a modern alternatives. The black-cab drivers did not anticipate, or perhaps even understood, the threat of a mobile app taking business rapidly away from them. A unwarranted reliance on "keeping things as they are", and "if it isn't broke, don't fix it", left the black-cab operators ill-prepared to face and challenge a new app-based substitute like Uber, which cleverly used the mobile technology, and economies of scale, to provide the same customers, with a similar if not more reliable, easier and cheaper service.

Another key factor to Uber's popularity can be attributed to the **bargaining power** of the commuters, who will always be looking for a cheaper, faster and convenient means to travel.

With a large number of potential customers entering and exiting cities like London on a regular basis, the ratio of customers to cab-providers is always high, with more passengers than drivers. Along with the fact that the majority of people would always prefer a private cab to public transport, particularly if the pick-up and drop-off, is more readily available and costs only marginally more than public transport.

With a variety of alternatives available, including buses, tubes and trains, the customer will tend opt for the quicker, convenient alternative, even though it may be marginally more expensive. Indicating the stronger bargaining-power of the customer, when it comes to transport services. Particularly in developed cosmopolitans like London.

When Uber came to London, it attracted flocks of 20 to 30 year old' tech-savvy customers. Customers familiar with living in the app-word. For them, Uber was an extension to the portfolio of day-to-day applications. They were always looking to get to where they needed to, quicker and easier. Clearly indicating that the bargaining power, when it comes city-transport, laid with the consumer.

Furthermore, Uber had access to a vast labour-market. Several city-locals looking for work, and also several looking to supplement their existing income with part-time work.

With little prerequisites to becoming an Uber driver, i.e. a clean driver's license, no major criminal record, and own vehicle. These minimal work-eligibility requirements kept the talent pool tilted on the side of Uber. It could easily recruit new drivers, or lay-off existing ones, based on customer-demand. If there was a high demand season, for example, public-holidays, Uber could easily activate more drivers from its database. When there as less of a demand, it would conveniently keep drivers on a "standby" contract. This efficient management of its frontline workforce was further facilitated by flexible employment laws, and the use of the somewhat still legally ambiguous zero-hour contracts.

This arrangement suited Uber well, as it didn't have to commit to large payroll-costs each month, as the drivers were either freelancers or contractors. They were paid only when needed, and any idle pay, which would have resulted if the drivers were contracted employees of Uber, was automatically eliminated. Some have even argued that Uber's app-based business model has indeed created more new jobs. The flexibility of working as and when best suited, attracted several local non-drivers to become Uber drivers. As they were given the option to opt-in when they needed to work, and opt-out when not. Allowing them to work around other commitments and schedules. Some would become Uber drivers seasonally, a couple of times a month, so supplement their existing income, to save for a holiday, etc.

The freelance nature of the employment with Uber rendered the drivers as "self-employed"; they were responsible for the filing of their own taxes. Hence, cleverly taking away the burden of employment entitlements like holiday-pay and sick-pay away from Uber. Another key factor attributed to Uber's app-based business model, and quick success.

The global nature of Uber's application, and the virtually seamless supply of drivers, made London another ideal market for Uber to enter, with little to none barriers-to-entry.

From the above, it would appear that the any market condition should be ripe for Uber. A huge customer-base to tap into, access to a large pool of suppliers (drivers), virtually no fixed assets to invest in or manage, and minimal compliance and legal obligations that may stop Uber from operating.

Despite such an ideal scenario, Uber still has faced, and continues to face, a storm of opposition. The recent blow came this last September, when TFL, revoked Uber's license as cab-operator.

The reasons cited by TFL were a lack of corporate responsibility on the part of Uber.

Uber's business-model was set from the start to disrupt the cab industry's incumbent players in London, i.e. the black-cab operators. When the leader in a market is threatened by a new entrant, it most likely would carry on relying on its status as the main or dominant player in the market. It will not take the threat too seriously, and continue business as usual, and not pay too much attention to the new entrant, disregarding it as "temporary nuisance", till usually it's too late.

Once Uber started to gain traction, the black-cab operators took note, and realised their business was practically in the process of being disrupted by this new app. As most dominant players, the black-cab operators were ill prepared to counter the technologically driven up-stream movement of Uber into their territory. From a business stand-point, there wasn't much the black-cab operators could do; a new technology was disrupting the way people ordered and used cabs.

However, what the black-cab operators did have in their favour, and something which Uber didn't anticipate, were the deep and longstanding political ties it has with the transport regulatory body, The Transport for London. This connection and influence the incumbent black-cab drivers and lobbyists had with a key regulatory body, which oversees all licensing issues, for all cab operators, including Uber, either directly or indirectly, has played a key role in halting the growth of Uber, and shifting the pendulum back in the direction of the black-cab operators.

The back-cab saw a clear yet gradual decline in their revenue, once Uber had launched its app in London.

Realising that it was probably too late for a similar app of their own to be a competitive alternative to retain customers, the black-cab operators relied on their political prowess in the form of their unionised operating structure, and their long-standing ties to the Transport for London. After extensive lobbying, TFL eventually played its trump-card in favour of the black-cabs, stepped in, and save the day.

Amidst rumours on a range corporate responsibility violations on the part of Uber, Transport for London capitalised on these reports, and revoked the operating license for Uber. Hence, now creating a legal barrier to one of its main and profitable markets, London.

This barrier-to-operation was nothing but good news for the several black-cab operators who were losing business to Uber on a daily basis, and saw the threat an app like Uber was presenting.

The future for Uber is now unclear, as a damaged reputation of being an unethical employer and apparently not living up to its corporate and social responsibility, can be difficult to come back from. However with the introduction of a new CEO this past August, and giving the company a much needed face-change, it is clear Uber is keen to fixing its reputation.

One option Uber does have is to step away from the cab-hiring business, and subsidise its app as a ride-hailing app for all cab providers, i.e. black-cab and mini-cab. This will remove the company from the exposure to the political issues and hurdles it seems to regularly face, and is practically incapable of escaping, every time it enters a new market. Furthermore, it will bring Uber back to its technology-roots of Silicon Valley, where it is most comfortable, and where it was originally formed.