Disruptive Innovation: The Case of Uber in London

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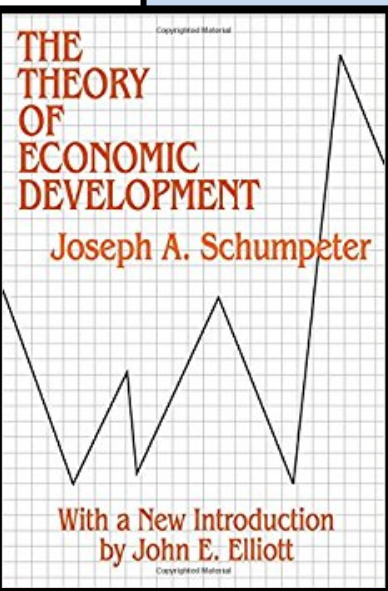
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Disruption and Innovation

Creative Destruction

Joseph Schumpeter (1910)
New combinations of productive
means – internal change without
external disturbances
Fordism production lines

Theory of Economic Development

Change takes place
Inside the existing
Process

THE THEORY OF ECONOMIC DEVELOPMENT
Joseph A. Schumpeter
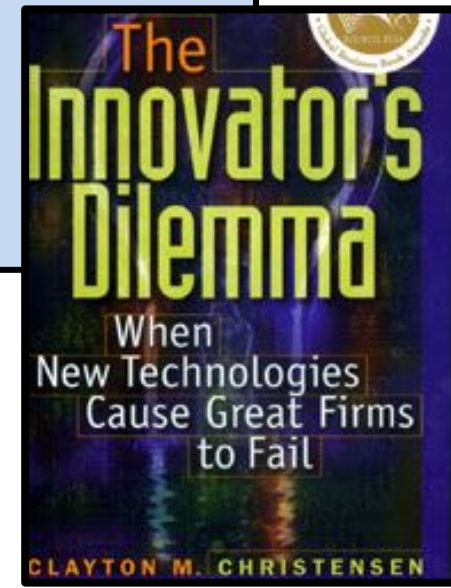With a New Introduction by John E. Elliott

Disruptive Innovation

Clayton Christensen (1997)
Transformation (positive) of existing
processes to increase simplicity,
affordability, accessibility and
convenience – initially as a niche and
then as standard

The Innovator's Dilemma

Change takes place
Outside the existing
Process (innovators)

The Innovator's Dilemma
When New Technologies Cause Great Firms to Fail
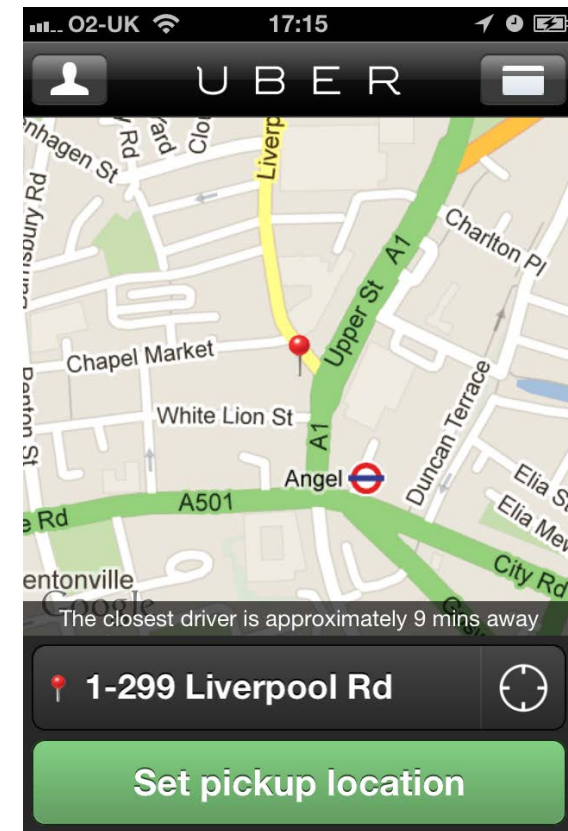CLAYTON M. CHRISTENSEN

Uber

Business Model – Simple use of technology

1. Smart phone app for the booking, route, fare and payment
2. Sharing economy – drivers using their own vehicles

Now operates in >70 countries with some $16 B investment
Market Cap about $70 B

Uber calls itself a technology platform (not a taxi services) and drivers are registered partners (not employees)

Not made a profit – expansion key so that it can establish market dominance – success measured by number of users

Uber - London

Background and Development

2012 – Coincided with the London Olympics

UberX registered with TfL

Black cab demonstrations (2014 and 2015) – unintended consequences

2015 – High Court Case – TfL claimed that the Uber-app was a taximeter

Restricted to taxis – with price based on time and distance travelled

HC ruled that it was not a taximeter, but an app

Uber - London

2016 – TfL unsuccessfully tried to limit Uber – time delays on picking up customers – Uber mobilised a 200,000 petition

2016 – Uber more vulnerable to its own staff – Central London Employment Tribunal – drivers classified as employees – eligible for sick pay and holidays – Tribunal ruled in favour of drivers

2017 – TfL successfully introduced an English language test for Uber drivers Now 30,000 Uber drivers and 22,500 black cab drivers

2017 - The European Court of Justice's advocate general Maciej Szpunar preliminary decision was that Uber provides a transport service, not a digital service

Lessons from Uber-London

1. Maintain expansion through redefining political and public debate – exploiting regulatory weaknesses and antiquated practices
2. Changed perceptions on the existing business model of public and private transport
3. Potential benefits from lower levels of car ownership, fewer parking spaces and better use of scarce urban road space – role in suburban areas that are less well served by public transport – but less profitable
4. Uberisation – embedded within the public consciousness – mixing of technology with principles of the sharing economy

Uberisation is a transition to an operational model where economic agents exchange under-utilised capacity of existing assets or human resources (typically through a website or software platform), while incurring only low transaction costs.

Lessons from Uber-London

5. Public sector response has been cautious – unclear how to respond – outside conventional public transport and not private transport? need for taxis to compete with their own apps – Kabbee, Gett UK
6. Expansionist approach could lead to self destruction – removal of Travis Kalanick (but still influential) and appointment of Dara Khosrowshabi (Expedia)
7. Internal problems – apart from labour disputes – sexual harassment, recording of Kalanick argument, secret Greyball programme, alleged theft of AV information from Alphabet, resignations

Comment

Uber needs to become more publicly acceptable – but also to keep its innovative edge – one of TK mottos is "it is easier to ask for forgiveness than permission"

Mission of Uber is to "provide transportation as reliable as running water, everywhere for everyone"

25th September 2017: TfL declined to renew Uber's operating licence
      1. Not reporting criminal offences;
      2. Safety concerns – drivers hours – drivers as employees – rights to sick pay and holidays – also how medical certificates obtained for drivers;
      3. Greyball activities;
London is Uber's largest European market – 3.5 m users
Uber launched a petition – gained 800,000 signatures in a week

Mayor Sadiq Khan- has a strong bargaining position – difficulty of balancing public opinion and role as the regulator of public transport in London.
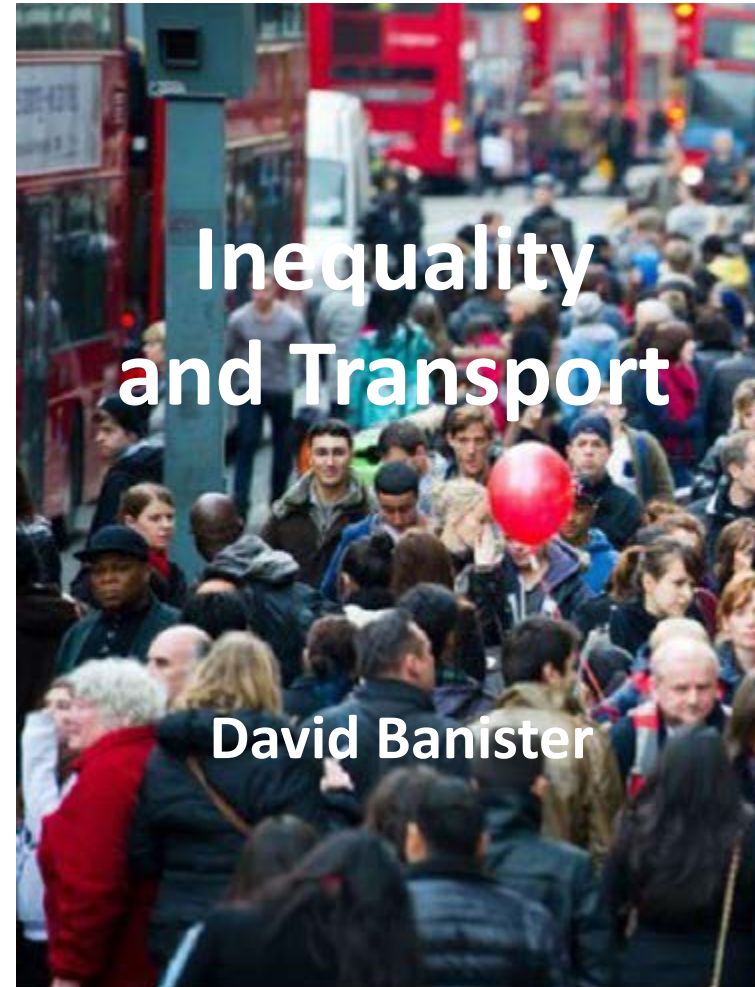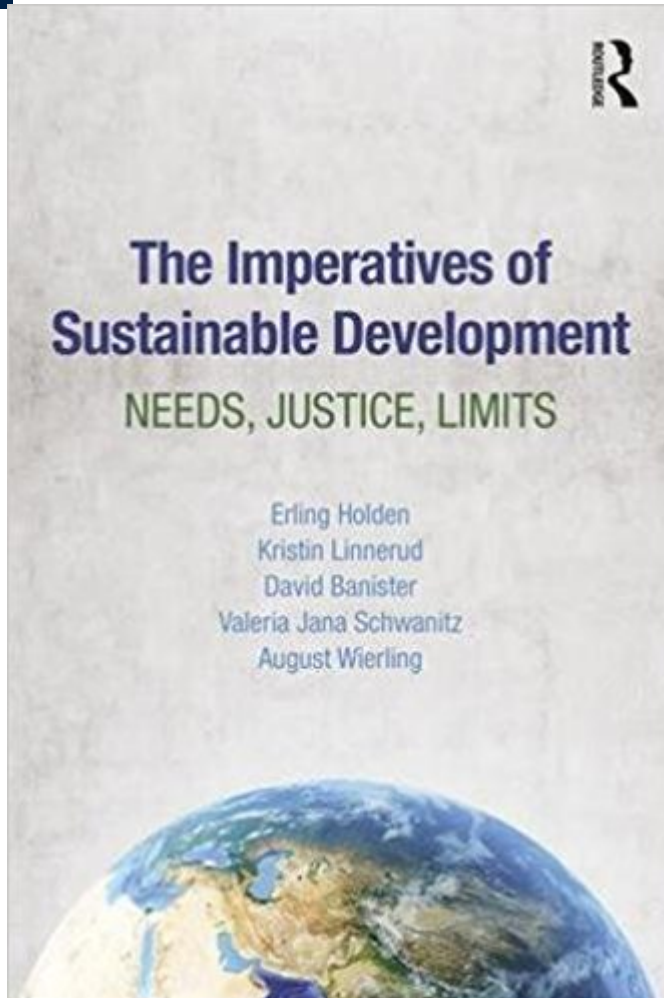Ruling - "not fit and proper to hold a private hire operator licence".

27th September 2017: Uber appeared before an employment tribunal – on drivers as employees

LONDON

LR10 HZL

UBER STRIPPED OF LONDON LICENCE
SADIQ KHAN MAYOR, LONDON

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Reflections on Disruptive Innovation

Huge expectations and financial risks – too big to fail?

Questions:

1. **Regulation:** "Chaining the giants" – regulate as utilities, thus making it easier to ensure the payment of tax – questions here over the dominance (oligopolists) and restrictions on competition – buying up competition and aggressive lobbying of politicians – responsibility for platform content

2. **Brutal Capitalism:** Prepared to take on all opposition – and see themselves as the 'good guys' – providing information, connectivity and opportunities. But no social consciousness or morality. Do not consider the implications of their actions – role of Venture Capitalists. Dismiss opposition as being anti progress

3. **Power and Instability:** The new unpredictability, as there is so much information on all connected people – even on voting preferences before the votes are made – who is in control? Automation of many jobs, with people paid for doing nothing – the growth of populism, inequality, fake news and contagion - the new politics and implications for democracy