

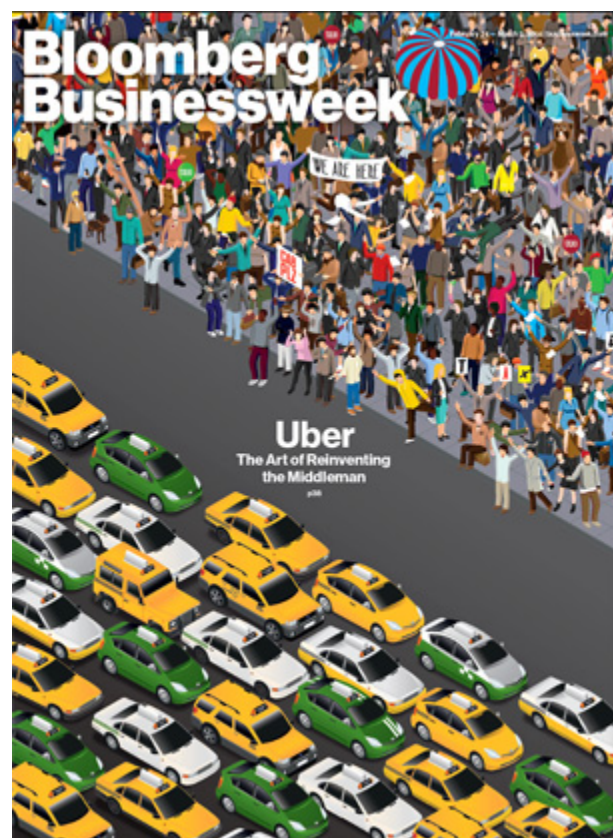
Bloomberg Businessweek

Technology

<http://www.businessweek.com/articles/2014-02-20/uber-leads-taxi-industry-disruption-amid-fight-for-riders-drivers>

Invasion of the Taxi Snatchers: Uber Leads an Industry's Disruption

By [Brad Stone](#) February 20, 2014



[Illustration by I Love Dust](#)[Behind this week's cover](#)

Ray Markovich started driving a taxi in Chicago three years ago after shuttering his struggling wireless phone store. Driving a cab wasn't particularly gratifying or lucrative—he had to pay \$400 a week just to lease his 2011 white Ford Escape. It was predictable if monotonous work.

Well, there's nothing monotonous about it now. In June, Markovich, a thin, well-dressed man with short brown hair and spots of gray in his mustache and goatee, walked into the local office of Uber, the San Francisco-based taxi technology startup. Uber put him through an hour of orientation, gave him a free iPhone that carries its car dispatch app and some gear to mount it on the windshield, and sent him on his way.

Since then, Markovich has had to dodge flak from traditional cabbies who complain that they can no longer pick up riders in the city's tonier neighborhoods, and he's receiving a constant flood of e-mails from Uber itself, offering steep discounts on new cars and other perks to secure his loyalty. At the same time, he has increased his earnings by about 20 percent and says he's simply evolving along with his customers. "No one under the age of 40 with a smartphone is going out and getting a cab anymore," says Markovich. "I say if you

can't beat 'em, join 'em.”

There's a battle for the future of transportation being waged outside our offices and homes. Uber and a growing collection of well-funded startups, such as the ride-sharing service Lyft, are trying to make getting a taxi as easy as booking a reservation on OpenTable ([OPEN](#)) or checking a price on Amazon.com ([AMZN](#))—just another thing you do with your smartphone. Flush with Silicon Valley venture capital, these companies have an even grander ambition: They want to make owning a car completely unnecessary. They're battling each other, city regulators, entrenched taxi interests, and critics who claim they are succeeding only because they run roughshod over laws meant to protect public safety. “Being out in front of the taxi industry, putting a bull's-eye on our back, has not been easy,” says Travis Kalanick, the 37-year-old chief executive of Uber. “The taxi industry has been ripe for disruption for decades. But only technology has allowed it to really kick in.”

“I pushed a freaking button, and a car showed up, and now I'm a pimp,” is how Kalanick described to colleagues the vibe he wanted

Nearly four years ago, Uber introduced the idea of allowing passengers to book the nearest town car by smartphone, then track the vehicle on a map as it approaches their location. After the ride, the service automatically compensates the driver from the customer's preloaded credit card—no awkward tipping required. It's a simple experience and a much more pleasant way to get a ride than stepping onto a busy street and waving at oncoming traffic.

Uber has raised \$307 million from a group of backers that include Google Ventures, Google's ([GOOG](#)) investment arm, and Jeff Bezos, the founder of Amazon. It operates in 70 cities around the world and was on track to book more than \$1 billion annually in rides in 2013, according to financial information that leaked to the gossip website Valleywag last November. In February alone, Uber expanded to Dubai, Honolulu, Lyon, Manila, Milwaukee, Pittsburgh, Tucson, Ariz., and Durban, South Africa.



Illustration by Ellen Porteus

In the process, Uber has managed to become one of the most loved and hated startups of the smartphone age. Its customers rave about the reliability and speed of the service even as they bitterly complain about so-called surge pricing, the elevated rates Uber charges during hours of high demand. Uber has also been blocked from operating in several markets, including Miami and Austin, Tex., by regulators out to protect the interests of consumers or entrenched incumbents, depending on whom you ask. In Boston and Chicago, taxi operators have sued their cities for allowing unregulated companies to devalue million-dollar operating permits. Things grew especially heated recently in Paris, when incensed taxi drivers shut down highway exits to the main airports and gridlocked city traffic.

Kalanick calls the cab industry a “protectionist scheme.” He says these protests are not about the drivers but cab companies “that would prefer not to compete at all and like things the way they are.”

His opponents are equally critical. They accuse Uber of risking passengers' lives by putting untested drivers on the road, offering questionable insurance, and lowering prices as part of a long-term conspiracy to kill the

competition, among other alleged transgressions. Fueling the anti-Uber cause is the tragic case of a 6-year-old girl in San Francisco who was struck and killed by an Uber driver. “Would you feel comfortable if you had a 21-year-old daughter living alone in the city, using a smartphone app to get in a vehicle for hire, and that vehicle ends up being a 2001 Chevy Astro van with 300,000 miles on it?” says Trevor Johnson, one of the directors of the San Francisco Cab Drivers Association. “I’ve made it my personal mission to make it as difficult as possible for these guys to operate.”

Kalanick calls himself the perfect man for the job of liberating drivers and riders. His previous company, video-streaming startup Red Swoosh, was well ahead of its time, and Kalanick limped along for years taking no salary before selling it to Akamai Technologies ([AKAM](#)) in 2007 for a modest sum. “Imagine hearing ‘no’ a hundred times a day for six years straight,” he says. “When you go through an experience like that, you are sort of a hardened veteran. You only persevere if you are really hard-core and fight for what you believe in.”



Photograph by Noel Spirandelli for Bloomberg

BusinessweekUber co-founder Kalanick

To remind him of the tough times, Kalanick owns patterned socks with the phrase “Blood, Sweat and Ramen” embossed on them. He has a pompadour of thick hair and dark, squinting eyes, evoking Clint Eastwood during his Dirty Harry period. He cringes when asked why he once used as his Twitter icon the jacket cover of *The Fountainhead*, Ayn Rand’s tale of an individualistic genius struggling against a docile Establishment. Yes, he says, he liked the book; no, Rand is not his philosopher-hero. Shervin Pishevar, a venture capitalist who made an early investment in Uber, calls Kalanick “an empire builder. He wants to change the world.”

Kalanick co-founded Uber with his friend Garrett Camp, who’d previously started the online recommendation tool StumbleUpon. Their idea was simple: give customers convenience and the feeling of rolling in style. “I pushed a freaking button, and a car showed up, and now I’m a pimp,” is how Kalanick

described to colleagues the vibe he wanted.

San Francisco, like other urban centers, has long capped the number of taxi medallions, even as the population increased by 300,000 in the last 10 years. Dispatchers at the major cab companies didn't seem to care about prompt customer service since they make money primarily by leasing their cars to drivers. David Autor, an economics professor at the Massachusetts Institute of Technology, says the industry is "characterized by high prices, low service, and no accountability. It was ripe for entry [by startups] because everybody hates it."

Uber had spread to about half a dozen cities by early 2012, when it picked up some competition, Sidecar and Lyft. Inspired by Kalanick's efforts to connect cars and people through smartphones, these two companies go one step further and allow any driver with a spare seat to pick up passengers who've requested a ride with their smartphone. Lyft, which requires drivers to display large pink moustaches on the grilles of their cars, facilitated a million rides in its first year and another million three months after that, according to John Zimmer, the startup's president. The pink 'staches now patrol 20 cities, and Lyft is in the process of raising more than \$80 million in additional venture capital to accelerate its expansion, according to people familiar with the investment round, which has not yet been announced.



Illustration by Ellen Porteus

Kalanick says the introduction of Lyft and Sidecar was a turning point. At the time they were launched, he was battling to prove that Uber's town car service was legal. Recognizing that these upstarts had moved more aggressively to seize on regulatory ambiguity, he introduced a competing ride-sharing service, UberX, with drivers using their personal mid-range cars, such as Toyota Priuses. Uber has also tried to poach its rivals' drivers. It regularly deploys sales representatives to climb into the seats of the competition and lure drivers with cash bonuses and free gas cards. In New York, Uber employees tried to slow down customer response times at Gett, a rival service, by ordering and canceling cars en masse; Uber apologized for the ruse in January. "The sales tactics were too aggressive," an Uber spokeswoman wrote in a blog post.

Urgen Sherpa, who drives a Toyota Camry for Gett, says he recently received a text message from Uber offering him \$1,250 to defect or "\$50 just to step into their office" and hear a pitch. Gett sent its drivers a text message during Uber's assault, apologizing for the harassment and declaring, "WE ARE AT WAR WITH UBER." Sherpa adds that several colleagues took the offer anyway.

During rush hour and other times of peak ridership, Uber jacks up its rates. On a recent Thursday in New York, for example, the Uber app indicated that because of demand, fares would be doubled. They can go a lot higher than that. The company doesn't divulge exactly how it calculates these surges, other than to say that they are determined algorithmically when demand in a neighborhood exceeds supply. To passengers, it can come across as gouging. Over the holidays, Jessica Seinfeld, wife of the comedian, posted to Instagram a screen shot of her \$415 Uber bill to send her children to nighttime social events with a caption that read in part, "#OMG #neverforget #neveragain #real." Others piled on, sharing similar experiences and accusing Uber of exploiting its customers.

Kalanick sounds like a patient if slightly exasperated parent when explaining his company's pricing policy. Raising rates during peak times, he says, is simple economics: It persuades more drivers to get on the road

and ensures an availability of cars to meet demand. Out of a \$10 Uber fare during nonpeak times, a driver gets about \$8, excluding taxes. During a surge when prices are quadrupled—which can easily happen during holidays or bad weather—the total fare is \$40 and the driver keeps \$32. “We’re in a situation where we have hundreds of years of fixed prices in transportation, going back to horses,” he says. “People would love to have 100 percent reliability at a fixed price all the time. I get it. That is not possible.”

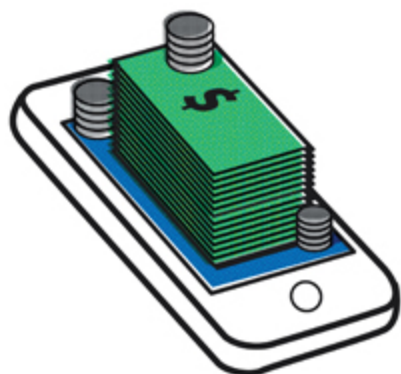


Illustration by Ellen Porteus Economists generally defend Kalanick’s analysis, though the profession itself is not exactly celebrated for its compassion. “Traditionally we had to have price regulation in cabs because when you are hailing a cab or standing in a taxi stand, you had to take the first car and you didn’t know the price in advance. You could be exploited,” says Ian Savage, a professor of economics at Northwestern University. Uber, he notes, requires that customers agree to the rate increase before they get in the car.

There’s another problem with traditional taxis that’s familiar to anyone who’s tried to hail a cab in Manhattan in the rain: They tend to be scarce when you need them. In a 2003 paper, Princeton economist Henry Farber found that New York City taxi drivers tend to head home after they reach their target income for the day. Common sense would dictate that on days where the getting is good—like when it’s raining—drivers would keep driving and grab as many fares as possible. It turns out, as Farber documented, that New York cabbies prefer to stabilize income day to day rather than rake it in while the getting’s good. If the weather’s bad, it’s not just that lots of people are hailing cabs; the supply is constricted, too, by cabbies who’ve more rapidly made their quota and turned on the off-duty sign.

“I’ve made it my personal mission to make it as difficult as possible for these guys to operate,” says a San Francisco cab official

Surge pricing may be giving drivers sufficient financial incentive to stay on the road. *Bloomberg Businessweek* spoke to more than a dozen drivers for the new app-based car companies in four cities. A few worried that Uber may be alienating customers with the occasional sky-high fare. But almost all admitted they were more motivated to drive at peak times. “If I don’t have anything to do and see a surge price, I get out there,” says Samir, an UberX driver in San Francisco who drives to supplement income from his tobacco shop. (Samir preferred that his last name not be used.)

Samir has little sympathy for the yellow cab operators who complain about Uber’s fares. He bitterly recalls having to wait for hours in the garages of a local cab company before Uber entered the scene, as dispatchers decided whether they had a spare car to give him. “It’s their fault,” he says. “They made it so hard.”

Just before 8 p.m. on New Year’s Eve, Huan Kuang and her two children were in a crosswalk in San Francisco’s Tenderloin neighborhood when an UberX driver hit them with his Honda SUV. Kuang’s daughter, Sofia Liu, was killed, and her 5-year-old son, Anthony, was seriously injured. The driver, Syed Muzaffar, was arrested and charged with vehicular manslaughter.

The family sued Uber in January, arguing that the company was responsible in part because its dispatch app had distracted Muzaffar. Chris Dolan, an attorney for the family, said that Kuang is prepared to testify that right before the accident, she saw the driver and could “see the light from the cell phone on his face.” In a statement after Liu’s death, the company claimed it was not responsible because Muzaffar did not actually have anyone in his car and therefore “was not providing services on the Uber system during the time of the accident.”

Every company with service vehicles on the road deploys some form of dashboard technology to conduct business. Delivery trucks can and do get into tragic accidents. Discussing the risk of distracted driving, Kalanick says that “the technology Uber provides its partners is far safer than anything the taxi industry offers.” Nonetheless, Uber’s critics are seizing on Liu’s death and asking regulators to revisit the status of the new app-based taxi companies. They assert that traditional cab companies may not have hired Muzaffar, who had a citation for reckless driving in Florida 10 years ago.

“When you have a transition of infrastructure, the old guard is going to fight like hell to hang on to its place,” says Robert Young, an assistant professor of urban planning at the University of Texas at Austin

Uber says its background checks are more thorough than its old-fashioned rivals. In a blog post on Feb. 13, Uber said it was expanding its existing procedures to include federal and county records, though some drivers say privately that they doubt the company was regularly checking backgrounds before the accident. The same week, in response to a *Chicago Tribune* request to profile some of its local drivers, Uber provided the name of one who reporters later discovered had pleaded guilty to a felony burglary charge in 2010. (Uber then severed ties with him and said he shouldn’t have been allowed to drive.)

“Now people are finally waking up to the fact that there is no real insurance, and oh, that’s right, there are no real background checks being conducted,” says Matthew Daus, former chairman of the New York City Taxi and Limousine Commission and a fierce Uber critic. “I’m hoping that people will now pay attention to what this actually is, which is an attempt to deregulate the taxi industry.”

Billy Cunha is a minor league umpire and, in the off-season, a ski slope paramedic. This year, because of the absence of snow in Northern California, he furnished the front bumper of his black Volkswagen Jetta with a pink moustache and became a driver for Lyft. A few weeks ago, Cunha was driving behind a yellow cab on a two-way San Francisco street when the cab passed a double-parked car and, when Cunha followed, wouldn’t let him back in the right lane, keeping Cunha and his passenger in the lane with oncoming traffic. The cabbie, who probably pays thousands of dollars a month in medallion fees and other expenses, then stared down Cunha, who pays none of that for the very same customers. “He was stalling me out in the other lane on purpose,” Cunha recalls. “I smiled and applauded at him.”

Many drivers say they now hide their Uber phones or Lyft moustaches when they get to the airport to elude angry cabbies. It’s not a long-term solution for an expanding industry. “When you have a transition of infrastructure, the old guard is going to fight like hell to hang on to its place,” says Robert Young, an assistant professor of urban planning at the University of Texas at Austin.

The ride-sharing companies must contend with this hostility if they want to pursue their dreams. Kalanick routinely talks about building a dense network of Uber cars in every city, then using it to deliver such things as packages from online stores and takeout food. (The company delivered flowers over Valentine’s Day.) Uber could one day even allow other companies—say, a laundry pickup startup—to use its fleet. “Once you’re delivering cars in five minutes, there are a lot of other things you can deliver in five minutes,” Kalanick says.

Zimmer at Lyft talks about a worldwide grid of drivers, all picking up passengers who are going in roughly the same direction. Such a system could greatly reduce the need to own a car and cut down on parked vehicles and parking lots. Zimmer even imagines harnessing a fleet of self-driving cars. “One day we may be in a world where we’re all passengers,” he says.

Such visions may sound like an inevitable revolution in transportation, or Silicon Valley hype, or both. One Uber driver in San Francisco says he’s already tiring of the company’s constant experiments, but he still thinks it’s better than the alternative. “I couldn’t say, ‘forget it, I’m turning it off,’ ” says Keith Raskin, who has been driving for Uber for several years. “That’s because of the ineptness of the cab industry to step up and compete.”

With Joshua Brustein and Leslie Patton



[Stone](#) is a senior writer for *Bloomberg Businessweek* in San Francisco. He is the author of *The Everything Store: Jeff Bezos and the Age of Amazon* (Little, Brown; October 2013). Follow him on Twitter [@BradStone](#).

©2014 Bloomberg L.P. All Rights Reserved. Made in NYC