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Unable to Beat Them, Cabs Join Uber and Lyft in Ride Sharing

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- Yellow Cab morphs into zTrip as upstarts lead way for rivals
- Taxis seek to beat companies with regulations they pioneered

Across the "rides" industry, the number of independent contractors has grown by 174 percent in five years, compared with only 21 percent for cab company drivers, according to a Brookings Institution analysis.

Photographer: Caitlin Ochs/Bloomberg

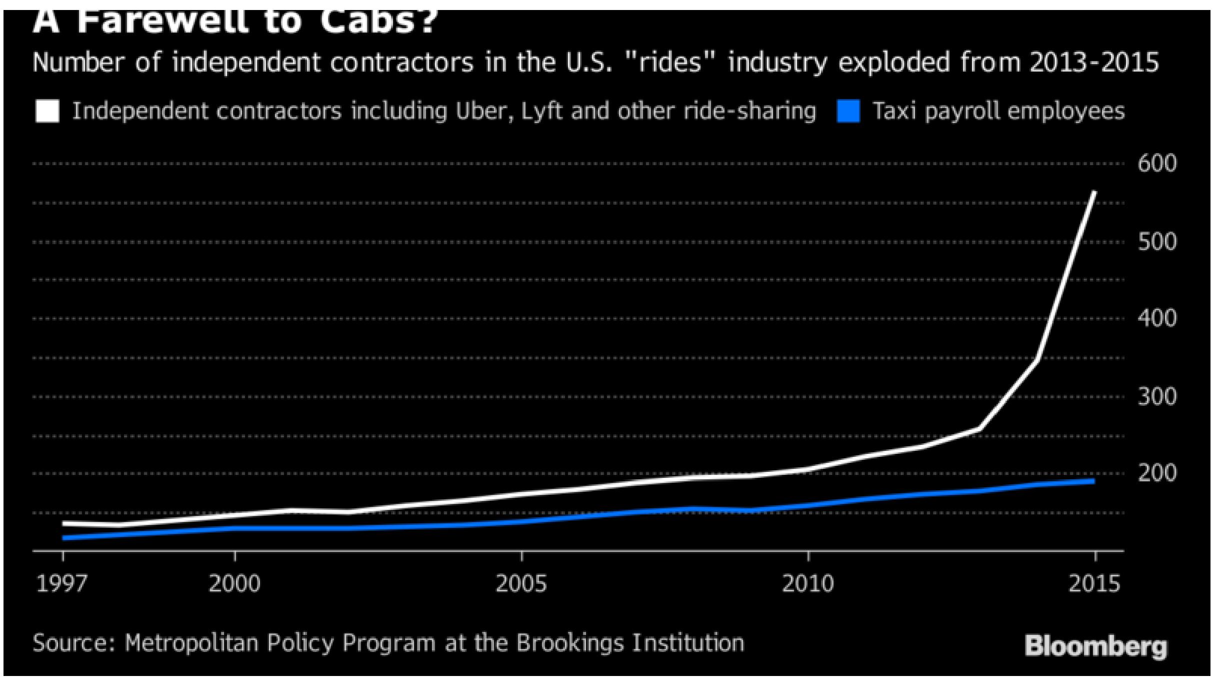
Taxi companies across the U.S. waged a bitter, high-profile battle to keep Uber Technologies Inc. and Lyft Inc. from bringing the sharing economy to cabs.

They lost.

Now the cabbies are adopting a if-you-can't-beat-them, join-them-strategy.

Pittsburgh Yellow Cab, for example, rebranded itself last year as zTrip. A century-old fixture in Steel City, it launched an app and offered a hybrid of services: accepting cash along with credit cards, letting rides be hailed from a corner or scheduled online and forgoing Uber's controversial surge pricing during peak periods.

"The pie's bigger," said Jamie Campolongo, the company's president. "So why not get over in that segment?"



Campolongo was able to do that, in part, because of regulatory changes the ride-sharing companies championed. Uber and Lyft have spent millions of dollars to win approval for their web-based business model in nearly all 50 states. In many cases, this allowed them to escape more onerous regulations put on cab companies, such as background checks with fingerprinting and requirements to carry commercial insurance.

The effort changed both industries. Across the "rides" industry, the number of independent contractors has grown by 174 percent in five years, compared with only 21 percent for cab company drivers, according to a Brookings Institution analysis. Along the way, as in other industries disrupted by technologies, the ride-sharing services drove some old-line taxi companies into bankruptcy while clearing the way for others to compete with them head-to-head.

"A perfect example for us was the last home Steelers game," Campolongo said. His company had 300 of its cabs out along with 126 independent contractors to ferry football fans around. "We would have never had 426 cars on the road. The ebb and flow of this business allows the company to kind of expand and contract."

The Taxicab, Limousine and Paratransit Association, the industry's leading trade group, once fought ride-sharing, going as far as starting a website "Who's Driving You?" questioning the safety of passengers using the services.

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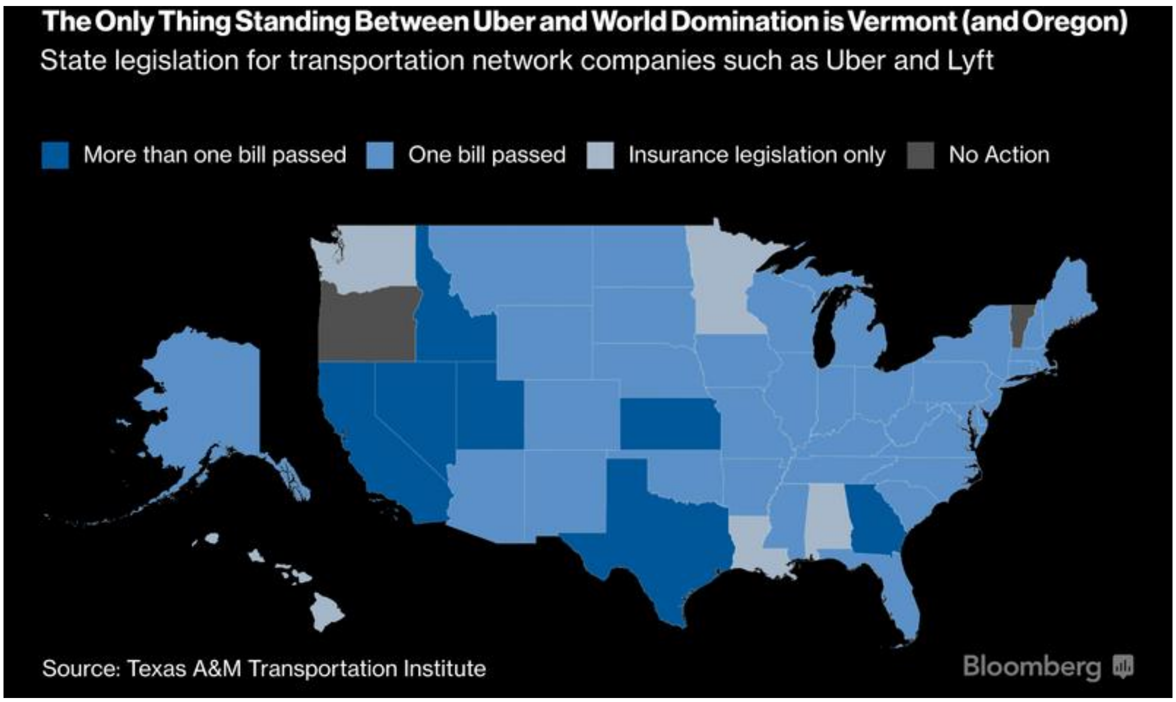
Now the new head of the TLPA, Michael Pinckard, believes it is the industry's future.

"It's obviously clear for the last 12 months that TNCs and ride-sharing are here to stay," Pinckard said. "I think it's safe for people to begin adopting those differences in their business models without fear of being regulated out of business."

The owners of C&H Taxi in Charleston, West Virginia, thought about letting drivers use their own cars back in the 1980s, when MTV and Pac-Man were cultural crazes and long before smartphones and apps were on the radar. There was only one problem -- it was illegal.

"We were never allowed to," said C&H owner Jeb Corey. "So when Uber started lobbying the legislature to offer their version of service here in West Virginia, it basically gave us the potential to do those things now."



Ride-sharing companies began their push in California in 2013, where the state's Public Utilities Commission released the country's first state-level regulations for the industry, using the term "transportation network companies" or "TNCs" to define the services as distinct from taxi and limousine companies.

In the years since, 43 states and Washington, D.C., have passed broad-based laws governing everything from permits and fees to background checks. The vast majority have used the TNC designation to define and regulate the companies' activities, according to the Texas A&M Transportation Institute.

Another five states -- Alabama, Hawaii, Louisiana, Minnesota and Washington -- have laws that only address insurance requirements. Only two states -- Oregon and Vermont -- stand between Uber and Lyft and the completion of an extraordinarily rapid shift in regulation across the country.

Lobbying States

The two companies spent a combined $14 million on state lobbying from 2012 to 2016, a figure that represents more than 75 percent of the money spent by the entire taxi industry over that period, according to the National Institute on Money in State Politics. In so doing, they have completely upended the traditional cab sector and driven many companies out of business. But they have also opened the door for more competitors.

Despite a year of scandals and lawsuits, Uber is still the world's most valuable startup on paper at $70 billion. And with a planned $1 billion investment this year led by Alphabet Inc., Lyft would be valued at $11 billion. Both companies still enjoy an important advantage over their competitors: scale. Uber and Lyft work the same in New York, Chicago and San Francisco as they do in small towns and cities around the nation. And now they are just about everywhere.

The Latest: It's GrubHub on Trial But Uber Has a Dog in This Fight Too

But by bringing sweeping changes to the regulatory environment, they made it even easier for competitors to enter the market. Now, cab companies from Phoenix to Pittsburgh are using the new TNC designation to create hybrid companies that can function like traditional cab companies and TNCs. The owners of these businesses contend that they enjoy some important advantages as well.

Corey and Campolongo petitioned regulatory agencies in their states to allow them to operate like an ordinary cab company -- dispatching cars from a central location and picking up street hails -- and as a TNC -- connecting riders and drivers via a smartphone app.

In states that have changed the rules, there is hope that this new hybrid model will allow traditional cab companies to survive in some form. In other places, however, taxi operators describe a bleak competitive landscape where they are permanently disadvantaged by outdated regulations.

“The ‘if you can’t beat ‘em - join ‘em’ concept may work for large incumbent taxi and limo companies, but with the high licensing fees and costs associated with insurance, most taxicab fleets and almost no individual drivers could afford to become licensed as TNCs,” said Matthew Daus, a lawyer and former New York City Taxi & Limousine Commissioner and Chairman.

"The rulemakers have woken up to the fact that they can’t regulate Uber and Lyft out of existence but at the same time I think cab companies start out with a legacy problem," said Aswath Damodaran, a professor at the New York University Stern School of Business.

New Competitors

For Uber and Lyft, the emergence of hybrids highlights a threat to their business: It’s relatively easy to get into. The completion of an ambitious project to legalize the ride-sharing model from coast-to-coast will only enhance this threat. Meanwhile, the companies still haven’t reached profitability.

"As long as there are two players in the game, it’s very difficult for either player to make money," Damodaran said.

In the end, the regulatory relief Uber and Lyft had to seek in order to operate in the vast majority of states will open them up to new competition, according to Bruce Greenwald, a Columbia Business School professor and value investor.

"They’re damned if they do and they’re damned if they don’t," Greenwald said. "So I don’t think that there’s a good outcome for them.”

— With assistance by Catarina Saraiva

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