



RIDE SHARING: BRINGING OUT THE CRYSTAL BALL

The “other” ride sharing company!

The Ride Sharing Market

- It is big and getting bigger: The ride sharing market is both broader and bigger than most anticipated to be and you can see this in
 - ▣ Anecdotal evidence, seen in how many and what type of people “uber” to their destinations.
 - ▣ Revenue growth at the existing ride sharing companies has been red-hot at every ride sharing company
 - ▣ Investor expectations have more than kept up, as the pricing of these companies has increased more dramatically.
- It is a tough market to make money and the costs that these companies are incurring are not going to easily scale down, as the companies get bigger.

The Crystal Ball

1. Winner takes all: The “winner takes all”, where one ride sharing company emerges as the winner and takes the bulk of the ride sharing market.
2. The Loser’s Game: The game boils down to two or a few ride sharing companies that constantly compete for each other’s resources and customers, making this a loser’s game.
3. Divide and Rule: The two or few ride sharing companies come to a truce, where they divide the market into fiefdoms and respect the borders.
4. The Game Changer: Recognizing that the ride sharing business is not a sustainable model, a company (either within the existing market or from outside) comes up with a new business model.

1. Winner takes all

- For each company, this is the “highest value” scenario, if it can pull it off.
- For this scenario to unfold, the winning player has to
 - ▣ Drive out the competitors, using any means necessary
 - ▣ Keep new entrants from entering the business
- The downsides are that
 - ▣ It will be expensive to drive out competitors, and it become even more so, if they have staying power.
 - ▣ It may attract legal and regulatory scrutiny.

2. The Loser's Game

- This is the logical end product, if every company in the business plays the “winner takes all” game and ends up not succeeding in driving competition out.
- If competition continues to be intense and lasts long enough, you will end up with a business where the players have
 - ▣ Large revenues
 - ▣ Small or non-existent profits
 - ▣ Returns on capital < Cost of capital
- In essence, the business will become a “bad” one, where growth destroys value.

3. Divide and Rule

- If the possibility of scenario 2 rises, and all of the players in the ride sharing business recognize that they could collectively drive themselves into the ground, it is possible that they could come to a truce, where they divide the market up into segments, and each company gets to dominate its designated segment.
- This truce will never be a peaceful one, since the desire to enter more lucrative segments is a powerful one. It is also a truce that can be disturbed by a loose cannon in any of the entities involved.
- It is also dependent on no new entrants coming into the game and spoiling the peace.

4. The Game Changer

- The ride sharing business, as constructed, has a sustainability problem and may need artificial support systems (like the divide and rule option) to keep it afloat.
- There may be another ride sharing business model, with more sustainable competitive advantages. Without knowing what that model is, I would hazard a guess that it has to include more investment in the infrastructure of ride sharing (the cars, the drivers etc.)
- It is conceivable that one of the ride sharing companies in the business is working on a better model. (Keep your eye on Uber's robotics investment)
- It is also possible that one of the players not in the game may be the game changer, whether it be an existing tech giant (Google and Apple come to mind) or a new business with access to capital.

The Dance of the Disrupted

<i>Stage of disruption</i>	<i>The Taxi Cab Business</i>
<i>1. Denial and Delusion</i>	Long in the past, when cab drivers (car service operators) thought that no one would switch to a tech company with few cars and untested drivers.
<i>2. Failure and False Hope</i>	Each misstep by a ride sharing creates the hope that this could be the tipping point. Fewer and fewer believe it now.
<i>3. Imitation and Institutional Inertia</i>	Mistaken belief that it just the app that separates ride sharing company from conventional cabs/car service -> Providing apps to car drivers will bring customers back.
<i>4. Regulation, Rule Rigging and Legal Challenges</i>	Regulatory, legal and political hurdles abound, but the game is destined to be lost, since the ultimate arbiters of who wins the game will be customers and they are voting with dollars.
<i>5. Acceptance and Adjustment</i>	Earnings will continue to drop, prices for medallions will drop even further and the debt load at cab operating businesses will tip many of them over.

The end game for the disrupted!

- Traditional taxi cabs and car service will not disappear, but it will shrink to
 - ▣ The portions of the market where regulation is most powerful and easiest to enforce. (The airports, stadiums and train stations are obvious places to mount your last fight.)
 - ▣ The portions of the market where you are negotiating with a large entity (investment bank or corporation) for a large number of customers.
- The consequences for earnings and prices (for licenses to operate cabs) will be large. Earnings will drop significantly but the effect on prices could be catastrophic, unless the regulators act quickly (and adjust the number of licenses/medallions).