The Global Expansion of UBER in ASIAN Markets

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Abstract — **This paper contributes to the literature on the internationalization process of new ICT companies, especially the ride-hailing developer firms. It analyzes the global expansion of UBER in the Asian market. UBER did an aggressive expansion using a standard business model in every market that they get into. The strategy was on scale economy rather than localization of services. The case analysis suggests that UBER was unsuccessful in its global expansion due to a number of factors especially the host economy context and local competition. Eventually, the company retreated from Asia and refocused its efforts in their home market. This research shows that the global expansion of ride-hailing firms is not as easy as the born global theory would predict. It demonstrates that ownership advantages are still relevant as there are still a lot of frictions in the global market.**

Keywords— *UBER; ride-hailing firms; global expansion; ownership advantages; Asian economies*

1. Introduction

The global expansion of Information and Communication Technologies (ICT) has been an interesting research topic during the recent decades [9]. Along with this expansion is the rise of different types of ICT companies in different industries. These ICT companies have provided different software and hardware services to pull alongside the growing demand for digitalization in different parts of the world. Their growth is considered to be phenomenal as about half of the world population is now using the internet [10]. The likes of Microsoft, Facebook, Alibaba and Google have enjoyed a winner-take-all fortune as the usage of computer and internet becomes part of the lifestyle of many organizations and individuals. Within the last 20 years, there were numerous types of ICT firms which made innovative offerings to different users. Be it in finance, shopping, education, and transportation to name a few. All of these offerings have disrupted many industries in favour of a new, flexible and efficient business models [7].

One of these newer ICT business models is the application-based taxi (hereafter referred to as app-based taxi) service. The app-based taxi service is defined here as those taxi services that can be processed through the use of an Internet application starting from the registration, reservations, payment, evaluation and interactions by riders with independent drivers and virtual staff. The app-based taxi is part of the overarching concept of sharing economy. This is where an idle resource, such as an automobile, is shared by private owners to other users through an ICT platform. These sharing economy business models have experienced a tremendous growth of users in the last few years. Apparently, this is because of the advantages that the newer business models can offer compared to the traditional ones.

In less than 10 years the app-based taxi services, such as UBER, Grab and Lyft, have expanded rapidly in various cities around the world. This heightens up the debate on whether highly innovative firms, such as those app-based taxi developer firms, actually defy the incremental internationalization which is the common pattern of the incumbent multinational enterprises (MNEs). The expansion of these highly innovative firms across borders is believed to be quicker because of the agility of their organizational structure and assets. This is the argument of the proponents of the born global phenomenon. On the other hand, another camp believes that there is no sufficient proof to support the born global phenomenon, as there are still a lot of frictions in the global markets. They argue that the phenomenon is very limited in nature and may not be enough to serve as a yardstick in both theory and practice [3]. Further, they have reiterated

International Journal of Supply Chain Management
IJSCM, ISSN: 2050-7399 (Online), 2051-3771 (Print)

that the ownership advantages of the firm are the ultimate requirements for the successful entry and sustainable competitiveness of a firm in their foreign markets. This paper joins this debate by presenting the case of UBER. The objective is to show which camp applies to the experience of UBER in its global expansion in Asia. Also, the paper deals with the factors that affected the Uber's overseas operations and the kind of ownership advantages that they have, compared to local competitors.

The succeeding sections are organized as follows. Firstly, it presents the analytical framework that is used in this study. Secondly, it presents the context of the case, and lastly, it provides the discussions and conclusions.

2. Analytical framework

This section provides the background theories for the analysis of the case. There are four concepts that comprise the overall framework of the study. First is the concept of global expansion, which is the main focus of this paper. Global expansion occurs when a product or service extends its value to the customers in other countries. In this study, it is about the use of app-based taxi system from one country to another. Second is the performance and diffusion of innovation, particularly ICT innovation. The use of the app-based taxi system has to be analyzed at the technological level. This is where an application is diffused elsewhere for other users to adopt; together with the factors that make the adoption possible or not, including its performance. Third is the context of the economy where the expansion and adoption is being made. Different kinds of economy result to a variety of conditions for the ICT technology adoption based on the characteristics of the users, institutions and physical infrastructure. Lastly is the characteristics of the local competition, specifically, the local taxi firms in the transportation industry. The rivalry plays an important factor for the success or failure of a new entrant in the industry. Eventually, the levels of resources and capabilities determine how well the firms compete with each other. Below is the exploration of these concepts.

2.2 Global expansion strategy

The global expansion strategy is best analyzed at the firm level as it involves strategic decision-making at the micro level, whether the expansion of products or services. The outcome of this decision-making process is reached by considering two fundamental directions in the choice of strategy. These directions are the economic integration and national responsiveness [1]. Economic integration strategy is the production and distribution of products and services of a homogeneous type and quality on a worldwide basis in order to maximize economic efficiency, particularly costs. The main thrust of this strategy is to consider all the global customers to adhere into a common choice of products and services. The firm can save costs by standardizing its offerings for a large number of customers; that is, economies of scale. On the other hand, national responsiveness strategy is the choice of the firm to adapt to and manage different consumer tastes in segmented country markets and to respond to the different national standards and regulations imposed by sovereign governments and agencies. The logic of this strategy is customization; wherever the firm goes, its products and services would fit with the local needs and wants. Although the firm does not save much on costs, it can develop customer loyalty and strong position in the target market.

Further, [1] has argued that these two strategic directions could range from low to high based on the firm's strategic commitment. They proposed the Integration-Responsiveness (I/R) framework to map out the strategic commitments together with the two strategic directions. The result is a matrix with four quadrants; each one describes a particular strategy either low or high, or both, for the two strategic directions (see Figure 1). Quadrant 1 is the global strategy, where there is a high commitment for international economic integration and low in the awareness of national responsiveness. The firm views the world as a single market and the focus is on economies of scale or low-cost advantages. The headquarters mostly controls the decisions in this strategy. Quadrant 2 is the international strategy (or home-replication strategy). The need for both international economic integration and national responsiveness is low, so economies of scale and the benefits of national responsiveness are of little value. The main focus of the firm is the domestic market and only extends its products and services, through exports, whenever suitable markets exist. Hence, there is almost no deliberate global expansion commitment in this strategy. Quadrant 3 is the transnational strategy where both the commitment for international economic integration

and national responsiveness are high. Transnational strategy aims to capture the best of both worlds by endeavouring to be both cost efficient and locally responsive. To achieve both objectives requires strong network linkages (in the value chain) or a matrix structure of coordination to facilitate global integration. Quadrant 4 is the multi-domestic strategy. Here, the national responsiveness is high but the international economic integration is low. The goal of this strategy is localization, focusing on a number of foreign countries/regions, each regarded as a stand-alone local market worthy of significant attention and adaptation. Hence, it relies on foreign subsidiaries operating as autonomous units to customize products and processes for local markets. This leads to multi-domestic autonomous subsidiaries.

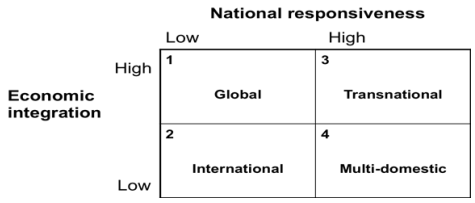

Figure 1. The integration and responsiveness framework [1]

In addition to the framework above, firms in the ICT industry are argued to globalize differently than typical firms. This is because the nature of ICT assets is flexible and highly mobile compared to the physical assets that non-ICT firms have. Hence ICT firms can cross borders with less fixed costs. This pattern is regarded as 'born global internationalization' due to the rapid cross border expansion of the ICT based firms of compared to the incremental progression of typical international firms, especially the manufacturing ones. [4] defines the born global firms as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". These firms are thought to be less than 20 years old, have internationalised (with at least 25% of their sales from overseas) within 3 years of inception and high technological and innovation orientation.

2.3 The performance and diffusion of ICT innovation

The spread of a technology follows a typical trajectory that is slow at the beginning, fast in the middle and stops when it reaches its limits. The ICT trajectory is no different. ICT is defined here, adopting [9], as technologies that support data and information processing, storage and analysis, as well as data and information transmission and communication, via the internet and other means. The stage where ICT right now is roughly at the middle, as all countries have access in it and continues to penetrate into all aspects of human life in a rapid manner. This penetration depends on two aspects which are performance and diffusion. The performance indicators of ICT can be about speed, capacity and power. Notably, the application of the Moore's law. The better these indicators become the higher the possibility of adoption by the users. This condition is also grounded in path dependence by way of users finding the newer technology to be valuable compared to the existing technology. In terms of diffusion, the cumulative number of users is the primary measure based on the theory of increasing returns to adoption. The more the technology is used the more effective and efficient it becomes. This is because of the learning effects and network externality, where users find the technology easier as they continue to use it and encourage others to have the same. When both factors are positive, investments and effort to continue the technology increase until the technology reaches its limits.

Also, adoption of ICT takes place at different levels. Two of the most important levels are at the organization and individual levels. The adoption of ICT by organizations can increase their productivity, efficiency and transparency. This is because of the transaction costs that are associated by system maintenance and bureaucracy. Hence, an organization may arrive at its optimal size and production capacities when they incorporate the ICT in their organizational structure. Individuals also benefit from ICT adoption. ICT becomes a utility for the consumers to settle their needs as well as interact with others. These days, it is common to transact on line whether buying and selling of personal items as well connecting with others in different social networking platforms. ICT has upgraded the scope and context of communication among individuals. No doubt that our knowledge and knowledge

acquisition activities have also improved during the last decades of using ICT.

2.4 Host economy context

The adoption of a technology by users also depends on the technological conditions of their country. That is, how open and receptive is a country towards incorporating a new technology or changing the dominant design in favor of the new technology. Early theories have classified the adoption of an innovation either by stages or user characteristics. For instance, the diffusion process of technology is said to proceed in five stages; beginning with awareness, interests, evaluation, trial and ends with adoption. Each stage requires an engagement and assessment of value by the users. The stages also can be used to compare countries and users as regards their specific stage in the adoption process. On adoption characteristics, the Bass diffusion model categorizes country and users into two, which are innovators and imitators. Innovators are those who lead in the investment and adoption of the technology while the imitators are the followers whose decisions are based on the experience and success of the innovators.

On the other hand, [6] conducted an empirical study on the diffusion of innovation and came up with the diffusion of innovation stage process, which is somewhat a synthesis of the previous studies. He suggested that the diffusion of innovation follows an S-curve pattern depending on the stage of adoption and characteristics of the adopters (see Figure 2 below). The lower end of the beginning of the curve represents the innovators, being the pioneers in the adoption of the innovation. At this stage, the technology is unpolished and demands more investment by the firms and adjustments from the users. Therefore, few adopters are willing to take those risks unless a subjective benefit is present. Next to innovators are early adopters who learn from the experiences of the innovators. Although some aspects of the technology are functional and worth endorsing at this stage, still, it remains developmental and needs more experiential processes. The next two stages are the early and late majority adopters. This is where the technology opens up and diffused to the majority of users. Most of the problems of the technology are solved and only incremental adjustments are being done. Finally, the last users are the laggards. These are the skeptics toward adopting the technology and will only base their decision on the overall experience of all the past adopters. Although the adopter categories are closely related to users, they are also applicable to the classification of country adopters.

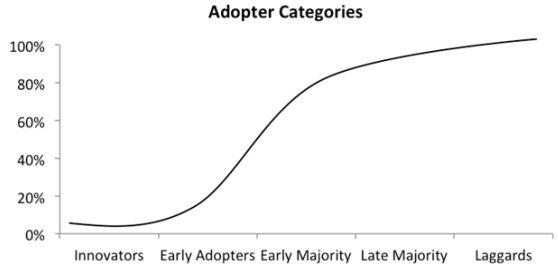

Figure 2. The diffusion of innovation following an s-curve [6]

Also related to the country context technology adoption are the levels of economic development and infrastructure. They are complementary in the successful diffusion of a certain technological innovation. In countries where the economic development is low, problems such as institution voids are common [2]. Institutional voids are the factors that impede the functioning of market institutions such as absence of formal legislations and regulations, infrastructure and processes. Added to this are the policy shifts which are frequent and affect how a certain policy for technology adoption is being included and implemented consistently in different regimes. As expected, the volatile the institutions the lower the quality of developmental policies which in turn result into weak infrastructure. When the hard infrastructure is weak it will be difficult to rollout any technological adoption efforts.

2.5 Local competition

The local competition moderates the success and failure of the entry and operations of foreign companies. Early internationalization theories suggest that a foreign entrant firm needs ownership advantages, such as capital and knowledge, to outcompete the local players. This is logical as local players know the local market well and posses more information than the foreign entrants. This scenario describes the disadvantages of the foreign firm or its liability of being foreign. Also, the ownership advantages of the foreign firms should be unique and inimitable. Otherwise, local players will have an

easy time in copying these advantages and eventually out maneuver foreign companies.

The competitive advantages of local firms are determined by their absorptive capacity. That is, how fast they can learn, assimilate and utilize new knowledge. Either by developing their indigenous advantages over time or learning from foreign firms, even from competitors. This will make them resilient when they face competition. Hence, the stronger the local firms are, the higher the risk for foreign entrants to operate in that local market.

3. Case Analysis: The UBER Company

The UBER Technologies Inc. was founded in 2009. In 2010, it begun to operationalize its ride-sharing application "Uber" in San Francisco, California, where it is also based. It is a service-oriented company that allows people to share their cars to other commuters with the aim of reducing city traffic congestions and car ownership costs. The company remains privately financed with a number of notable investors such as the Wall Street's biggest banks, AMAZON CEO Jeff Bezos, Softbank, and even famous celebrities and angel investors. It rose from being a small start-up in the 2009 to one of the biggest technological firms in the world. In 2013, its valuation was $3.9 billion but only after 4 years the amount skyrocketed to around $68-$72 (estimate) billion (see Figure 3). The growth is so remarkable that it made many tech companies, investors and local players wanted to be a part of Uber or emulate its instant success.

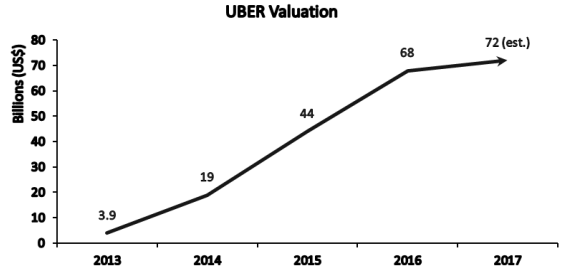

Figure 3. UBER Valuation
(Source: Author's compilation)

The main operation of Uber is centered on offering an app-based transportation service to different users. From taxi services, such as the Uber classics (X, XL, Black, SUV) and UberPOOL, to food delivery services such as UberFRESH and UberEATS. Figure 4 below illustrates the details of their operational performance. Uber rides (bookings) have been increasing continuously with 500 million in 2014 to 2 billion in 2016. From these rides the company had revenues of $2.93 billion in 2014, $10 billion in 2015 and $20 billion in 2016. The numbers can only mean that the company's growth has remained solid. However, the net revenue stream has not been quite convincing with only around 1% level of the gross revenue and with the market share that is declining. The reasons for this are some losses that the company incurred in their overseas operations and withdrawal from other cities. To date, the company only profits from their US (home country) operations. Added to this are some scandals that the company have been embroiled into, especially its CEO -Travis Kalanick, which affected the company's operations and valued investors. So far, the company has appointed a new CEO, Dara Khosrowshahi, with a goal of turning around the company by operations efficiency, few service diversifications and an initial public offering (IPO) in 2019.

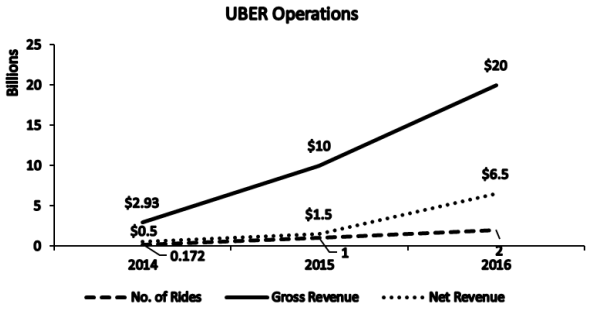

Figure 4. UBER Operations
(Source: Author's compilation)

3.1 Local competition

The motivation for the overseas expansion of UBER is mainly a market-seeking internationalization. The tag line was "Uberize the entire world" by disrupting the global taxi transportation industries. The approach is to scale rapidly and gain as many subscribers as possible. After successful US operations, the company expanded to European cities of Paris, Berlin and London, Sydney in Australia, Mexico in Latin America, Taiwan in Asia, Johannesburg in South Africa and Bangalore in India using the same business model. According to the company, they were launching a new international market (city) every week around 2013-2014. By 2017, Uber service is available in 65 countries and over 600+ cities worldwide [8]. The

globalization is indeed rapid. Anybody can use the same Uber application as long as a rider has an access to a smartphone and internet, regardless of location. The ride sharing app was designed to be standard, cheaper, flexible and mobile. Being a tech software company, Uber maintained to be lean and did not have many problems on fixed assets and direct investments. Therefore, it realized cost advantages from its global expansion. In the I/R matrix Uber is in Quadrant 1. The company follows a global strategy, based on the kind of business model that they have. The company has a high commitment for international economic integration with its operations using the same application in all the countries that they are operating. Hence, the firm views the world as a single market and the focus is on economies of scale or low-cost advantages.

3.2 Diffusing ride-sharing app

The technological design of the Uber app relies on the existence of both a smart phone and an internet connection. In Asia, the internet users' structure varies from country to country; some innovators (South Korea, China, Singapore) and the rest are imitators (other Southeast Asian countries). In general, most of the users belong to the early majority as smartphone is widely used in Asia. Uber leveraged on this favorable infrastructure for their operations. Although the Uber app works similarly in the advanced countries, some of its functions such as credit card payments are unsuitable in Asia. For the most part, countries in Asia prefer to pay in cash due to the weak credit card system in some countries. Therefore, there are only few users who can actually use the app. Uber has not foreseen this issue of complementary payments that is crucial in markets like Asia. On top of that, ride-hailing apps are also easy to create. Once the local players know about the system, it was only a matter of months that they had improved and customize their own ride-hailing app that is more reliable than Uber.

3.3 Dealing with policy and infrastructure

One of the biggest hurdles of Uber in Asia is policy alignment. Their "get in and think later" mantra proved to be unsuccessful. Asian countries have mixed political systems and transportation policies are set differently in each country. Right after entering Asia, Uber faced a lot of charges due to regulatory violations. Some of these are monopolistic behaviour and unfair competition, unregistered drivers, and safety and security measures. Uber paid hefty fines for these charges and tried to settle the rest, when possible. As regards infrastructure, there was also a problem in the GPS and Google Map applications. In some Asian countries, drivers were able to manipulate the GPS system to increase the discounts, making Uber pay more incentives. Using google map was also difficult as some countries have their own mapping systems that were more secure and accurate, and for some (such as China) regulated by the Government for security purposes. Therefore, drivers and users were forced to reverse back to the local maps and made the Uber map system irrelevant. This simply shows that both soft and hard infrastructure is difficult to navigate, especially in the Asian markets.

3.4 Competing with local operators

The ride-hailing app industry is now understood to have very low barriers to entry. Ever since Uber made the waves, various ride-hailing companies have popped out like mushrooms. The industry is as close to perfect competition with no brand loyalty from its users. Because of this, Uber lost in price war against local players. Local brands, such as Grab, proved to be more reliable and some had cemented first-mover advantages for services that they were already offering in the past such as cash payments, text messaging reservations and even localized language apps. While local players are hyper localizing, Uber was busy dealing with their problems around the world with very low focus in each market. Thus far, Uber is yet to produce a profit from their global market operations. In fact, Uber have retreated in some countries and opted to sell its operations or invest in local players such as Didi in China, Yandex in Russia, Grab in Singapore among others.

4. Discussions

Ride-hailing business models are appropriate in emerging market regions, such as Asia, because of their efficiency compared to the traditional taxi. In some markets, ride-hailing apps help to navigate the poor local transportation systems and customize local travel needs. Certainly, the preceding case suggests that the business strategy for ride-hailing app is local rather than global. This is a tough lesson

for Uber, which followed a somewhat failed global strategy by overestimating the validity of its business model in Asian countries (see Figure 5 below for the summary of the case analysis). In theory, Uber did not have enough ownership advantages to outperform the host country players. It has a highly imitable business model and unsustainable competitive advantages. Moving forward, the recent refocusing of the operations of Uber to their major markets such as America and Europe brings an opportunity to build their brand further and gain sustainable revenues. Their collaboration and investments with other firms and competitors, including in Asia, will bring new learning and better knowledge of many markets. They may use this in their future business such as the autonomous taxis and delivery services [4].

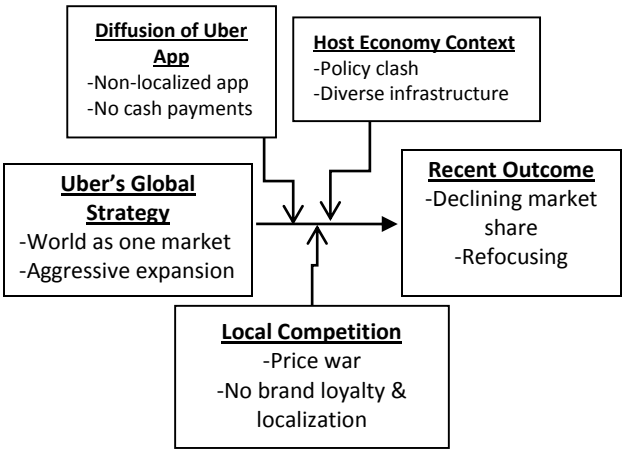

Figure 5. Outcome of Uber's Global Strategy

5. Conclusions

Traditional international business theories suggest that ICT companies have a relatively easy path in expanding overseas. This paper explored this hypothesis by analyzing the factors related to the global strategy of Uber, and how the company dealt with the frictions in their Asian host economies. The Uber's expansion may have followed the conventional theory but their aggressiveness has neglected the necessary preparations in understanding the host country markets. The firm's goal was purely scale economies with very low localization efforts. As a result, this made them very vulnerable to local competition, which in turn dragged their market share to the extent of pulling out in some markets. The case shows that the global expansion of ride-hailing firms is not as easy as the born global perspective would predict. There are still a lot of frictions in the global market that make the internationalization of ICT firms remain incremental. This paper also demonstrates that Uber has not yet developed sufficient ownership advantages to operate as a global company since the firm was futile in outperforming local rivals. This outcome supports the propositions of the eclectic paradigm in international business, which emphasizes the role of competitive advantages in the success and failure of overseas expansion. Overall, this paper contributes to the study and analysis of ride-hailing firms, which remain underexplored in the current management literature.

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