INNOVATION: THE CASE OF UBER
QUYNH DOAN
Senior Student at RMIT University
E-mail: S3515535@rmit.edu.vn, qjen.doan2812@gmail.com

Abstract - This paper presents a case study of Uber regards to innovation process and management. Firstly, it studied a previous failure in which Uber failed to be innovative enough. Based on this event, the paper studied innovation and the connection to strategic management by evaluating Uber’s innovation management and differentiation to Grab – Uber’s regional competitor. After identifying the challenges which Uber was facing, recommendation was made using the tools which assist in managing innovation.

Index Terms - innovation; innovation process; strategy; strategic management; Uber

I. INTRODUCTION

This case study will investigate UBER – an international business which has been leading transporting services worldwide. The aim of this analytical study is to examine previous innovations of UBER in order to evaluate their innovation capability and compare their innovative approach to GRAB – a regional competitor. Then, this study will inspect on the current challenges which are also the opportunities for UBER to innovate better and suggest tools that UBER can use or continue to employ.

II. LACKING INNOVATION LESSON

Innovation, as a process and an outcome, demands sufficient attention and continuous efforts [1]. Being known as an innovative leader, UBER had failed to be innovative enough at times that resulted in big losses. In 2013, the company entered China and only three years later, forced to be merge-able with its rival: Didi [2]. Although the media published many typical problems, such as political conflicts or legal barriers, it is believed that these PESTEL challenges present to all international business, not only UBER. In fact, a critical mistake of their failure was a ‘status-quo’ in strategy. Specifically, UBER tend to raise a harsh pricing competition in every big market such as California with LYFT [4] or Delhi with OLA [5]; by using promotions, subsidies and driver bonuses. In this case, Didi - who got backed up by market dominators not only prepared themselves as a wealthy player, but also advantageously engaged with local Chinese. It is very clear the reason why UBER could not ‘fight’ any longer than a three-year period without adopting other strategies instead of battling ‘hand-to-hand’.

From this failure, it is suggested that UBER carefully carry a study into the local industry using Porter Five Forces (Fig. 1). This framework was relevant to UBER because it could help determine a suitable rivalry spirit that the business should have towards competitors by accurately study the attractiveness of the industry.

This tool is believed to help the firm switched from a ‘status-quo’ strategy and innovated tactics that were more adaptable into the China market. To elaborate, by examining the threat of new entry, supplier power, buyer power and threat of substitution, UBER could have a better idea about how high their rivalry spirit should be. As there is absolutely no threat of supplier and low threat of new entry in terms of significant competitor because despite how easy it seems to start the business, it demands complicated effort to achieve a similar size and customer base; therefore it was more rational if their rivalry spirit remained at least considerate towards a harsh pricing competition.

Also, this failure presents a modern lesson about innovation when it should not be understood as solely high technology but also involves strategies and management. In further understanding, when the technology-push theory is replaced by social network theory of innovation [6]. Thus, this case study will carefully explore the connection between innovation and strategic management.

III. UBER: INNOVATION MANAGEMENT AND DIFFERENTIATION

Two of the most innovative recognitions about UBER are technological and business model innovation [7]
from which a number of scholars had found that innovation can be characterized along these two dimensions, based on the modern Innovation Landscape Map.

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Leverage existing technical competencies</th>
<th>Requires new technical competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requires new business model</td>
<td>Disruptive</td>
<td>Architectural</td>
</tr>
<tr>
<td></td>
<td>Disrupt other companies’ business model</td>
<td>Combine disruptions in both Model and Technology.</td>
</tr>
<tr>
<td>Leverage existing business model</td>
<td>Routine</td>
<td>Radical</td>
</tr>
<tr>
<td></td>
<td>Fit with existing resources including customer base</td>
<td>✓ UBER</td>
</tr>
</tbody>
</table>

Fig. 2. The Innovation Landscape Map [7]

It can be seen that at the early stage when UBER was launched, the business applied Architectural Innovation when it disrupted the traditional ‘taxi’ service with a brand new business model and modern technology such as mobile app. After a period of international expansion, it was found that UBER moves from Architectural to Radical Innovation, which can be considered as one of their strategic movements to better growth.

To elaborate, UBER leverages its existing model by adopting new transporting vehicles such as helicopter in Vietnam [8]. Also, the business was recognized to invest heavily into bringing autonomous driving on the roads [9]. Reflecting on these recent investments, it can be confirmed that UBER align the current strategies with Radical Innovation (Fig. 2).

To back up, reference [7] described Radical Innovation as having the challenge of being ‘purely technological’, with a trait of focusing into R&D through high-margin products. This study will evaluate this innovation approach of UBER by exploring their competitive advantages and innovation management.

A. UBER: Innovation Management

The exploration into VRIN framework - which identifies resources or capabilities and rank them as sustainable, temporary, parity and disadvantage [10]; shed light to study innovation management because early studies like reference [11] believed that achieving ‘sustainable’ competitive advantages is the trait of ‘all successful innovative organizations’. It is noted that innovation can be driven by strategies, which in turn are decided based on the strongest competitive advantages - sustainable VRIN resources.

Table 1.VRIN resources and capabilities of UBER, owners own work

<table>
<thead>
<tr>
<th>Valuable</th>
<th>Rare</th>
<th>Costly to Substitute</th>
<th>Non-Substitute</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D Facility</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Financial Capability</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Business Model</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Brand Equity</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Relates to R&D facility, UBER had bases all around the world such as Netherlands, Denmark and Bangalore [12]. In 2017, UBER extended its academia facility to outside USA which intentionally attracts college talents such as in University of Toronto by investing into Advanced Technologies Group [13]. Secondly, as a private company that does not need to have public financial report, their financial capability was partly confirmed through their media response with a profit that rose 18% in the first quarter of 2017 to $3.4 billion [14]. This financial capability is considerably strong as a transportation service when comparing to big rivals (Table 3). It is noted that a published book reported about UBER as not a profit-oriented firm but rather focusing into global growth and market shares [15].

From the above research, it can be concluded that the only ‘sustainable’ resources UBER possesses are their R&D facility with good financial capability (Table 1). Again, these VRINs back up their investment into autonomous driving sector that differentiate them from all other ‘taxi’ suppliers worldwide.

In addition, UBER is also exploiting their R&D capability to help them gain advancement over competitors. For example, GRAB in the Asian market as UBER customers can change destinations after making a booking while GRAB drivers cannot. This is confirmed by Doan when interviewed [16]. Later part will identify more significant differentiations between these two firms, besides this small multi-destination flaw of Grab.

B. Differentiation to GRAB

Vietnam has been hosting a battle for UBER and GRAB since 2014 [17]. The differentiation between both companies is evident when comparing their strategies. GRAB has been investing into aggressive marketing campaigns [18] that require innovation, as [19] proved that innovation drives marketing. In contrast, UBER silently competes by improving and applying their technologies into new services such as UBER Chopper for tourists [8]. Considering UBER chose to follow Radical Innovation in the above analysis, this strategy is quite rational as it focused...
into leveraging existing business model by using R&D resource - their VRIN (Table 1). To sum up, it is clear that UBER has adapted a long-term strategy and avoid harsh competition for short-term profit. To evaluate, this decision is very wise because the firm can certainly 'pick up' marketing investment at any time, especially when it already possessed brand equity as a 'temporary' resource (Table 1). Due to these differences in strategies, GRAB becomes profit-oriented and has higher market shares temporarily according to market research in Table 2, whereas UBER is more determined in maintaining a stable and deeper position across all segments of consumers in Vietnam.

Table 2. Comparison between UBER and GRAB, adopted from interview in reference [16].

<table>
<thead>
<tr>
<th></th>
<th>UBER</th>
<th>GRAB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trips per hour</td>
<td>1.50</td>
<td>1.65</td>
</tr>
<tr>
<td>Net Revenue per Hour (VND)</td>
<td>80,000</td>
<td>117,000</td>
</tr>
<tr>
<td>Average Trip Fare (VND)</td>
<td>53,500</td>
<td>85,000</td>
</tr>
</tbody>
</table>

Moreover, in terms of innovation attributes, these two firms seem to focus into different approaches. For example, GRAB focus into product and process innovation [20]. This is reflected through the launching of new product lines that saves cost and traffic congestion such as Grab Bike Premium and Grab Share. It is believed that by implementing these products into the market, GRAB made use of customization tool to find suitable adaptation into the Vietnamese traffic nature. On the other hand, besides imitating such products, UBER chose to focus into radical versus incremental innovation [22] as radical innovation detected in the above analysis. Also, lower trip fare (Table 2) and various-payments management that present their improvement in managing efficiency, also represents incremental innovation.

In this market, it is clear that UBER used a different strategy to avoid participating too much into harsh pricing competition. Although UBER might have not localized its strategies enough, it is certain that the firm has learned a lesson with the ‘status-quo’ strategy in China and therefore, innovate more tactics.

IV. UBER: CURRENT CHALLENGE

Lastly, in order to understand the minimum demand of innovation that UBER is confronting, it is important to study their toughest challenges. Reference [23] had identified problems of UBER including ‘brain drain’ and lawsuit problem. In addition, this case study acknowledged another problem which is their ability to innovate in strategic management, because this will in turn boost their competitiveness against regional rivals. Previous record about corporate governance scandal proved that UBER needs to improve its management body better, especially when the business confronts a decentralized human resources base [25]. The problem is urgent due to recent news that GRAB will successfully receive a huge investment from Softbank and DidiChuxing to help them dominate the Southeast Asia market [26].

To back up, reference [27] once concerned that innovative firms are more focusing into industry-level changes, whereas only few studied about firm-level determinants. This case is extremely realistic considering UBER advanced in industrial changes but not firm-level management.

A. Sexism Scandal and the potential risk for VRINs

The last problem that reference [23] mentioned is the most current scandal when an ex-employee of UBER released to the media that UBER had received numerous feedbacks from female riders about sexism. This scandal, compares to the above challenges, is significant in a way that it damages their brand equity (Table 1). Again, this problem reinforced the above analysis (part 3.1) as it implicates that UBER as an incumbent should be able to protect their current resources, especially VRIN resources if they want to successfully innovate.

For example, with a special ‘networking’ business model that initially could be considered as a ‘sustainable’ VRIN, the firm had failed to protect this resource from other entrepreneurs. This is backed up by a modern study of business innovation [28]:

‘Coupling strategy analysis with business model analysis is necessary in order to protect whatever competitive advantage results from the design and implementation of new business models.’

B. Implication for UBER and its progress of Innovation

Table 3. Summary of above comparison, UBER versus GRAB

<table>
<thead>
<tr>
<th></th>
<th>UBER</th>
<th>GRAB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value by 2017</td>
<td>&gt;50 billion dollars</td>
<td>&lt;6.3 billion dollars</td>
</tr>
<tr>
<td>Strategy</td>
<td>Early stage: Architectural Current: Radical Innovation</td>
<td>Product &amp; Process Innovation</td>
</tr>
<tr>
<td>Innovations</td>
<td>Business Model Technology Autonomous Driving Payment Management</td>
<td>Hyperlocal product Data Analytics Customer Service Marketing Payment Management</td>
</tr>
</tbody>
</table>
There are two implications for UBER in terms of innovation, in which the company can make improvements and overcome challenges. Firstly, as problems can be categorized into internal and external problems, reference [29] found that innovation can also be driven into two approaches from a strategic perspective: internal and external. For example: if internal innovation mainly involves with senior management or employees, it definitely assists in solving human resource challenge such as brain drain. Secondly, it is suggested that UBER use or continue to apply popular innovation management tools into their business management. Out of the various tools, reference [30] had identified project management, corporate intranets and benchmarking as the most useful ones. These tools are believed to help UBER become more competitive in terms of innovation management (Table 3).

Through this case study, it is reminded that UBER be extremely mindful in protecting their VRIN resources along with overcoming challenges. While these problems, especially the objection of being ‘purely technological’ can appear quite challenging, innovation is proven to be helpful through the case of China and Vietnam.

**CONCLUSION**

In conclusion, while Uber is following radical innovation, disadvantaged in a short term while tolerating uncertain return on investment over being ‘purely technological’, Grab took advantage of these weaknesses of Uber in Vietnam. With radical innovation, it was found that Uber needed new sustainable resources to help the firm adapt into local markets; also needed to know the importance of localization. This paper explicitly explored Uber in terms of innovation process in order to present an evident connection between innovation and strategic management, including corporate and business strategies.

A comparison to Grab was essential to examine how different innovative direction can lead to different market performances and profit orientations, as Grab was a major player in the market of Vietnam - where the competition was happening and the data was gathered. While future research should study into whether strategic management determines innovation and/or vice versa, firms should be more aware of the disadvantage of their innovative direction, especially in local markets during globalization. For instance, with radical innovation, Uber could not fully employ its VRIN resources into Vietnam, therefore, together with lacking localization, the firm could not be competitive enough. Another direction for future research is how different innovative direction can affect globalization process across different geographical and ecological areas. This case study reflected that radical innovation was not suitable for Uber’s globalization in China and Vietnam. At last, further research should consider a potential development for the model of Porter’s Five Forces. In this era, when businesses confront changes to grow or even survive; all Porter’s forces should be placed inside a context of innovation. It is believed that in a more aggressive innovative context, an industry’s rivalry spirit will be boosted up, considering different bargaining powers and threats to remain constant.

**REFERENCES**


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