Case Study: Uber—Changing the Way the World Moves

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Introduction: Characteristics of Industries Ripe for Disruption

Uber and other ride-hailing and ride-sharing businesses have dramatically disrupted the traditional taxicab business. Like healthcare, taxi service was ripe for disruption, characterized by both "pull" factors that propel a new business forward and "push" factors that drive customers away by making it hard to do business. In these situations, the legacy/incumbent businesses often have many assets and advantages that are not used effectively to thwart new entrants. The taxi business is hardly the first such industry to be disrupted. Other examples include the following:

- ✔ **Airlines:** Southwest disrupted the airline industry by changing pilot compensation, fare structures, and the traditional hub-and-spoke system. Southwest also pioneered quick turnarounds at the gate, allowing for more flights with a given fleet size. Southwest began in Texas in the 1970s as an intrastate point-to-point carrier specializing in short, low-cost, on-time flights. When the airline expanded outside Texas, it focused on secondary airports (e.g., Chicago Midway and Baltimore Washington International), which made it easier to keep fares low and schedules on time. Legacy airlines lost business wherever Southwest flew, as they were stuck with hub-and-spoke models that advantaged them rather than the customer. Initial responses to Southwest seem silly in hindsight, such as American Airlines cutting costs by reducing the number of olives on salads served in first class and other airlines introducing copycat low-fare versions without changing anything else about their operations, such as United's "Ted" service.
- ✔ **Video rentals**: Netflix essentially put Blockbuster out of business, first by mailing discs to customers rather than making them to come to the store, and then by introducing streaming services that now dominate the industry. Blockbuster has only one store left, in Bend, Oregon.

- ✔ **Other industries**: Many other industries have been disrupted in recent years, including music (by Apple and other streaming services), payment systems (by Venmo and Paypal), and hospitality (by Airbnb and VRBO).

> "The classic response of incumbents threatened with disruption is to do something small that does not fundamentally change the way they do business."
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> —*Stephen Kett*

As Clayton Christensen has noted, disruptive innovation tends to occur when complex, expensive, and/or time-consuming things are made simple, inexpensive, easy, and/or fast. Healthcare is clearly ripe for such innovation, as it represents a big part of people's lives, with large dollars at stake and tremendous hassles for both consumers and service providers. In most cases, disrupters target customers that existing players seem willing to lose. Once they establish a beachhead with those customers, the disrupters move to other products and customer segments. For example, Toyota entered the U.S. market by selling small, inexpensive cars to cost-conscious consumers. Initially viewed as "junk" cars, Toyota's product offerings quickly expanded, and the company soon became known for offering high-quality, reliable vehicles that sold at a price premium to American-made cars.

Uber as a Source of Disruption

Founded in 2009 as "UBERCAB" limousine service in San Francisco, Uber had revenues of roughly $4 billion and an estimated market valuation of $62.5 billion by 2016, despite annual losses of over $2.8 billion. Uber now operates in 70 countries and 500 cities; it enjoys a dominant market position, controlling 77 percent of the ride-hailing and ride-sharing business in the U.S. and 32 percent worldwide.

Uber has relatively few assets—it neither owns cars nor employs drivers. Uber relies on drivers using their own cars, connecting them quickly and easily to consumers in search of "on-demand" rides. Uber takes advantage of several societal trends that "pull" consumers to it, including the migration toward a sharing economy, the ubiquitous use of personal technology (particularly smartphones), flexible hours in the workforce, and the tendency of younger individuals to not want to drive. (A quarter of millennials do not have a driver's license.) At the same time, Uber is going after a business—taxi service—that actively pushes customers away, with consumers facing long waits, dirty cars, rude drivers, pricing uncertainty and overcharging, and hassles when it comes to paying a fare. Taxi companies also push drivers away by subjecting them to extensive and complicated regulations, high costs (e.g., for medallions), wasted time (e.g., slow dispatch process, long airport lines, time spent searching for business), and schedule inflexibility (e.g., fixed shifts). By contrast, Uber makes it incredibly simple for customers to get and pay for a hassle-free ride and for drivers to find customers and get paid for their work.

"When you have both pull and push factors going on in a business, you don't have customers, you have hostages. And when they see an escape route, they will go running for the exits. And once they get a taste of better service, there's no going back. You can't put the genie back in the bottle."

—Stephen Kett

As is the temptation among many industries threatened by disruption, the taxi industry initially used regulatory processes to try to thwart competition from Uber. In New York City, for example, the industry convinced Mayor DeBlasio to propose an executive order to limit the number of Uber drivers on the street at one time. Uber responded by placing an app on its smartphone known as the "DeBlasio View." Available only in Manhattan, this app told customers exactly how much longer they would have to wait if the executive order went into place. Uber customers quickly revolted and DeBlasio backed down.

The impact of Uber on the taxicab business is hard to overstate. In New York City, the cost of a taxi medallion fell from $1.3 million in 2013 to $400,000 in 2016, a 70 percent decline. The economics of personal transportation in New York fall overwhelming in Uber's favor—it costs approximately $3.21 a mile to operate one's own car, compared to $1.50 a mile for Uber's least expensive service. With the advent of self-driving cars, that figure could drop to $0.89 a mile. This trend terrifies those running large car companies, as they fear that many city dwellers may soon opt out of owning cars altogether. Looking ahead, some Wall Street analysts believe that selling cars to people may soon not be the core business of car companies. For these and other reasons, Ford Motor Company recently announced that it was going to stop selling almost all sedans in North America.

Going forward, Uber has its eye on much more than the $100 billion worldwide taxi/ride-sharing industry, where it now controls about a third of the market. The total personal mobility market is approximately $10 trillion and ride-hailing services represent only 0.4 percent of total passenger car miles driven. While Uber will never control all or even most of this market, analysts believe it can capture much more than 0.4 percent. (This potential accounts for the company's lofty $60 billion-plus estimated market value.) Uber is already having a devastating impact on the rental car industry, with more business and leisure travelers opting to use convenient, easy, inexpensive ride-sharing rather than dealing with the hassles of renting a car and paying for parking, especially in large cities. Uber is also making inroads into other segments, with the launch of Uber Eats (food delivery) and Uber SAFE (breathalyzers on street corners to encourage drinkers not to drive). Uber is even testing the idea of getting involved in the healthcare industry, with drivers now offering to stop during their ride to allow customers who have not had a flu shot to get one. The Uber app lists places that offer flu shots along the route. Initially offered free of charge, this and other similar services will likely be revenue producers for Uber in the future.

Uber's Lessons for the Healthcare Industry

Like the taxi industry, healthcare has both pull and push factors that make it ripe for disruption. Pull factors include the movement from volume to value, the growth of consumerism and transparency, increased penetration and use of personal technology, and the increased popularity of sharing. As evidence of this latter trend, Cleveland Clinic and others have begun offering group appointments for those with chronic diseases, as patients like to share and learn from each other.

At the same time, the healthcare industry often makes life difficult for consumers and providers, pushing both away from traditional delivery settings. Patients deal with antiquated scheduling and registration processes, with fixed office hours dictated by the whims of providers. They face an almost complete lack of price transparency, finding it almost impossible to know what a service will cost in advance of receiving it. They endure cumbersome, repetitive registration processes, providing the same information over and over, and often have difficulty accessing test results and understanding bills. The system simply was not designed with ease of use or patient access in mind.

> "Don't wait for outsiders like Netflix and Amazon to enter the business. If we don't disrupt ourselves, those who do won't tackle community health and many of the other things we care about. They'll take the profitable segments and leave the tough stuff for us."
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> —*Stephen Kett*

For their part, physicians and other providers deal with onerous productivity and documentation requirements, along with compensation systems that do not align with desired activities. In fact, healthcare is the only business where the addition of information technology has led to the hiring of more people—i.e., scribes who try to ease the documentation burden for physicians.

Not surprisingly, consumers are very eager for disruption in the healthcare industry. In its surveys, NRC Health routinely asks consumers the following question: "If you could have anyone run healthcare, who would it be?" For 10 years running, Amazon has been the most common answer. Amazon, of course, is already making inroads into healthcare, and one can be sure that the company will create products and services with the patient in mind.

Going forward, it is critical for health systems to participate in and lead the disruption. If outsiders lead the charge, they will focus only on fast-growing, easily monetized segments of the industry, leaving the difficult, less-profitable segments for traditional provider systems. Brand image and reputation may provide a temporary advantage and trust factor with consumers, but that will be no substitute for offering greater convenience and access.