Executive Summary

The purpose of this paper was an analysis of the financial status of Uber Technology Inc. regarding investment and preparation for an initial public offering. References from Central Michigan University MSA 602 were the baseline for developing the analysis. In addition other sources including articles from financial magazines, first person accounts from former employees at Uber and a third party investigations by the former Attorney General of the United States, Eric Holder, were referenced to draw conclusions. Finally a recommendation was made for Uber to satisfy investor needs for information.

Keywords: sexual harassment, Uber, sexism, disruptive innovation
An Analysis of Disruptive Innovator UBER’s Financial Issues

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Chapter One

Research Problem

From a management perspective previously my experience has been limited to small to medium size military organizations with organizational budgeting on that scale. In the last year I moved up to the Headquarters staff level at Pacific Air Forces for Intelligence. In that role this researcher is an Intelligence planner United Stated joint force exercises and also plans for bilateral and trilateral engagement exercises across the Indo-Pacific. Additionally I posture Intelligence units for readiness including deployments and the execution of operation plans.

This researcher has also worked as a project manager in acquisitions developing experience in United States government budgeting and allocation processes. While working in the field of acquisitions this researcher supported the development of several Intelligence, Surveillance, and Reconnaissance (ISR) platforms, an aerial re-fueler tanker, and an air to ground fighter jet aircraft for the United State Air Force. However, regarding application to this paper, this researcher exposure to traditional business management, acquisitions, and budgeting is limited to the MSA 602 class. As such much information on the analysis of the progress of Uber regarding their efforts to go public will be based on comparative research on other disruptive innovators.

The research I conducted for this paper primarily focused on Uber’s evolution as a disruptive innovator and technological company, the implications of the exposure of Uber’s toxic work culture and exodus of leadership in 2017, and comparisons to other public companies hailed as disrupter innovators. Uber Technologies is not a public company, and is privately held, Uber is not obligated to publically disclose its financial records. As such the release of Uber’s financial data is not consistent or regularly disseminated. However, an analysis of Uber’s
financial statements, leaked or otherwise, and random quarterly reports do allow analysts to build a view into the company for comparison (Hanson, 2016).

The research question to be addressed, regarding Uber Technologies Incorporated, is what steps are recommended to improve Uber’s plans to take to the company public via an initial public offering. This paper will evaluate the current revamped plan, offered by Uber’s new Chief Executive Officer Dara Khosrowshahi, for the path to initial public offering and also make recommendation for improvement. The exposure of Uber’s corporate climate issues in 2017 derailed their original plans for an initial public offering. That series of high profile events made it clear revamping their image was essential for going public. As such Uber has to make an extensive effort to improve as a safe workplace for diversity and innovation, which will also be discussed in this paper.

Disruptive Innovation

Uber is labeled in this paper as a disruptive innovator but what is disruptive innovation? Disruptive innovation is the theory that an idea, evolving from an under-served or ignored market, can overturn an existing market and replace established mainstream products, concepts, and technologies (Millar, Lockett, & Ladd, 2017). The theory has been highly lauded since it was introduced in 1995 but there are suggestions that it has been applied to every innovation disruptive or not. In fact Christensen has recently written in defense of the disruption theory. To do so he posed that Uber is not a disruptive innovator, as an example to differentiate, but instead a company sustaining innovation (Christensen, Raynor, and McDonald, 2015). This is due to the fact that Christensen claims that Uber emerged in a regularly serviced taxicab market and not from a low-end market. Emerging companies or products who target the same customers as existing mainstream companies and outperform them are called sustaining innovators. However,
Christensen is ignoring significant portions of Uber’s evolution to make this argument and
dismiss them as disruptive innovators. Uber’s own history supports the argument for Uber as a
disruptive innovator and thus comparisons to other similar disruptive platforms are necessary to
understand its future financial possibilities (Laurell, C & Sandstrom, C., 2016).

The story of Uber Technologies Incorporated begins on a snowy night in Paris, France in
2008 (Uber, 2018). The founders, Garrett Camp and Travis Kalanick, were attending a
technology conference and were unable to get a taxi back to their hotel. During their journey
home they wished for a simple way to order a ride. The initial concept was a for a timeshare
limousine service which would cost less than current luxury car services. In 2009, Camp
purchased the domain UberCab.com and convinced to Kalanick to join him on the development
process (Blystone, 2017). The company launched a beta test in New York City with an official
launch in May 2010 in San Francisco, California. At debut the company focused on the ordering
of luxury “black-car” service as originally discussed. The cost of the UberCab black car service
was less than the existing luxury car service market in San Francisco and allowed non-traditional
users access to the service with cheaper vehicles. An UberCab would be almost two times less
than a traditional car service fee. The focus on offering an alternative to the luxury black car
market to people who could not afford the regular black car services positioned UberCab in the
role of an emerging disruptive innovator to that industry (Johnson and Moazed, 2016).

Utilizing the mobile phone UberCab application or the internet a customer could order a
ride with the tap of a button. The app used the global positioning system (GPS) built into the
mobile phone to calculate the cost of the trip from starting point to destination. If the cost was
acceptable the customer could accept the ride and a charge would be made to their user account
(Blystone, 2017). The application allowed UberCab to develop a fleet of drivers they did not
have to pay any maintenance for and connect them directly to consumers in a peer-to-peer platform. To assist with the initial development of the platform UberCab utilized a variety of campaigns to entice support. They hosted and sponsored technological events and included free UberCab rides for attendance. This ensured reaching one of their target populations: the technological early adopter. In addition, in a practice that continues today, UberCab offered new riders 50% off their first UberCab ride (Uber, 2018). The technology behind the company was simple yet disruptive. The Uber platform as a whole based on the application did not directly maintain any drivers but connected consumers to providers similar to Amazon and eBay.

UberCab than began diversifying and looking to expand their service by moving into the traditional taxicab market. During that time UberCab also received a cease and desist order from the San Francisco Municipal Transportation Agency due to operating a taxi service outside the bounds of their agency. The company was quickly renamed “Uber” and continued to expand operations to spread rapidly to other cities. In 2012, Uber further expanded by launching a new service, UberX. UberX hired regular people to drive their own car, for the app, after a background check and meeting minimal vehicle requirements. UberX was 35% less expensive than their original luxury car service. However, until the application generated a high enough population of both drivers and customers the cost was much higher than using a taxi. The lack of drivers could result in a long wait but you could request a car with the click of a button and thus it became popular quickly (Hartmans and McAlone, 2016). UberCab, now Uber, was not the first company to utilize mobile applications and global positioning technology to allow for the ordering of car service but it was among the first and the most flexible. Other services had limitations such as only allowing taxi service as a bridge from another subscription, requiring
consumers to pay a fee to order a taxi within their app but still having to pay the driver separately,

Uber has stated they desire to be the “Amazon of taxi services” supported by opening a number of services starting with Uber RUSH in 2012 and Uber POOL in 2014. UberRUSH was a bicycle delivery service with flat rates pending zoning. UberPOOL was a carpooling service that matched drivers and workers traveling in the same direction (Ong, 2014). Shortly later in 2015 Uber Eats was launched allowing for customers to utilize Uber as an online food delivery service. Moreover, 2014 was also the year in which Uber reached cost parity with regular taxi services. They launched a large campaign in New York City announcing that an Uber cost less than a taxi ride. In 2016 alone Uber was estimated to have provided almost 170,000 a day in New York City (Bershidsky, 2018). Much like Amazon, Uber is focused on keeping the prices low via subsidizing drivers and rapidly expanding their market share to grow to the point it is a valid alternative to car ownership.
Chapter Two

**Uber’s Fund Raising And Expansion**

Uber is not obligated to share their financial data but in recent years, due to the desire to go public, they have shared several quarterly and annual statements. Analysis of Uber’s financials can be difficult due to the limited information and focus on drawing in investors. The company had attracted almost $18 billion USD in investment and was valued at $65 billion USD in 2016. No technology firm has ever raised the amount of money Uber has from private investors before going public. The company Uber is tied to in China, Didi Chuxing, is also highly valued at $56 billion USD. In June 2010, Uber launched in San Francisco and four month later they were successful in closing out $1.25 million USD in seed funding via friends, First Round Capital, and Napster’s co-founder (Arrington, 2010). Shortly later in February 2011 Uber closed an $11 million Series A funding round led by Benchmark that placed the value of the company at $60 million USD after a mere eight months in operation (McAlone, 2015).

In 2011 Uber, as a part of market expansion plans, launched operations in several domestic markets including New York, one of their biggest markets today, and expanded internationally to Paris, France. Uber also successfully closed on a Series B round of funding, led by Amazon’s CEO and Goldman Sachs, securing $32 million USD. Uber was also valued at $330 million USD by the end of 2011 (Weber, 2015). By August 2013 Uber had moved to $3.75 billion USD valuation driven partially due to a Series C investment by Google Ventures and expansion to India and Africa. In mid 2014 Uber entered the market in China after raising 1.2 billion USD in another funding round (Weber, 2015). Uber’s company mid year valuation of $17 billion USD improved to $41 billion USD by the end of the year and another $1.2 billion
USD round of fund raising to support plans for Asian expansion. The total include $600 million USD from Chinese search engine company Baidu.

In 2015 Uber began working toward their next evolution with a focus on the self-driving car. Unfortunately a series of setback began occurring at the point. Taxi drivers in locations around the world began protesting against Uber to include direct attacks against suspected drivers in France. In domestic courts Uber’s business model was called into question with the determination that drivers are employees and not contractors. Finally in the Chinese market a significant competitor, Didi Kuadi, emerged with a more successful funding round beating Uber’s $1.2 billion with a round of $3 billion (McAlone, 2015).
Chapter Three

**Uber’s Stumbling Steps**

Uber has shown itself flexible to set backs and continued moving forward with their plans for initial public offering. For example once it became apparent Uber would continue to lose million in battling with Didi Kuaidi in China an agreement was reached merging the companies and creating Didi Chuxing in 2016. Similarly Uber merged with its top Southeast Asia competitor Grab in 2018. However Uber remains both secretive and vague regarding financials. Today Uber operates in more than 425 cities in 72 countries with 30 million monthly users.

However, the presentation of the data is focused in a way to attract additional investment without disclosing issues. For example, for 2017 Uber touted the fact Uber gross bookings through the app totaled over $37 billion USD but Uber fails to also place the information in context. Most of that revenue went to the drivers and the company’s take was only $7.4 billion USD. Uber’s refusal to share more detailed financial information directly resulted in investment banks, such as JP Morgan, discouraging their clientele from investing (Hall, 2016).

Also Uber continues to hemorrhage money at an astonishing rate. In nine years of existence and almost $18 billion USD in financing it is estimated that Uber has spent over $10 billion USD and has yet to generate profit. Uber also suffered additional setbacks in 2017 due to a series of high profile events. In January 2017, Uber became the target of public criticism due to their actions during a protest against the Administration’s Immigration Ban. The taxicab drivers of New York Taxi Workers Alliance announced via Twitter, a social media network that they would strike on January 29, 2017 and not pick anyone up from New York's John F. Kennedy International Airport between the hours of 6pm to 7pm as a protest against Trump’s inhumane ban seemingly targeting Muslim countries. (NYTWA, 2017).
In response Uber tweeted that surge pricing for John F. Kennedy International Airport had been turned off during this time and that wait times may be longer (Uber, 2017). This move sparked an outcry as it was viewed as cooperating with the Immigration Ban breaking the strike to undercut the protest of the New York taxi drivers. A movement called #DeleteUber immediately launched via Twitter with an untold amount of customers deleting the Uber app from the phones. By the afternoon of January 30th Uber announced it had setup a $3M USD legal defense fund for immigrant drivers and formally requested that President Trump end the Immigration Ban.

Immigration Ban scandal exposed Uber in a highly visible way and placed public scrutiny upon them. Shortly thereafter Uber was assailed with allegations of a toxic hyper masculinity focused work culture invested with sexist and discriminatory behavior. In February 2017, Susan Fowler, a former engineer at Uber, wrote a blog post detailing her experience of working at Uber from November 2015 to December 2016. She shared stories of her uncomfortable process of organizational socialization at Uber consisting of stories of blatant sexual harassment, sabotage, and discrimination within the corporation. On her very first day, with her assigned engineering team, her manager blatantlly propositioned her for sex via the company chat service. Human resources then told her that she either had to move teams or accept that poor evaluation that was likely to give her in the future. If she stayed and received the bad review there would be nothing she could do about it nor would it be considered retribution (Dent, 2017). She changed teams but meeting with other woman engineers in the company, she discovered it was not his first offense. She and other women employees arranged for a series of meetings with human resources which resulted in human resources denying any of
the allegations against the “high performer” employee and illegally threatening Ms. Fowler with firing as retribution (Fowler, 2017).

This blog post was essentially Ms. Fowler reflecting on the toxic work environment at Uber. The then CEO of Uber Travis Kalanick released a statement that Uber would be an immediate investigation and those involved with such behavior would be fired. The Board of Directors of Uber called for an internal investigation led by former Attorney General of the United States, Eric Holder. In the intermediary period four top executives resigned from Uber including their new President Jeff Jones. In addition an engineering executive was asked to resign due to allegations of sexual harassment at his previous job at Google. CEO Travis Kalanick was also caught on video berating an Uber driver while being combative and aggressive which resulted in a leave of absence from the company before stepping down as CEO.

Eric Holder’s four month long investigation, as Covington and Holder, involved interviewing 200 employees and analyzing three million documents. The report yielded several recommendations including decentralizing some of the powers of the CEO, mandatory leadership training, a more robust complaint process, an overhaul of their human resources system, and more oversight from their board of directors. The Holder Report also recommended additional recruitment efforts from diverse university programs. Several of the recommendations directly related to the experience of Ms. Fowlers. They suggested that no special treatment given to any employees regardless of tenure or past performance, that romantic relationship be prohibited among employees where one reports to the other, and bias and abuse of the performance review process be eliminated. (Covington and Holder, 2017).

During that same board of directors meeting that these findings were announced a board member, David Bonderman, made an extremely sexist comment toward the board members who
were women within ten minutes of the declaration of “a new Uber.” Bonderman resigned a few hours after the meeting but it only emphasized how deeply the toxic culture was embedded at even the highest echelons (Green and Levin, 2017).

The Uber platform has been a disruptive technology to the traditional monopoly of taxicab companies. This has resulted in several legal challenges and similar brands launching in the last nine years. Litigation has been a large drain on Uber’s funds in other ways as well. However, in addition there were several revelations in March 2017 regarding the issues of ethics within Uber such as the handling of sexual assaults on passengers via forced arbitration, the use of a secret and possibly illegal program called Greyball to evade government scrutiny globally and booking of rides by law enforcement officials, possibly using stolen technology for their self driving cars, and not running proper background checks on drivers (Bershidsky, 2018).

Uber transitioned to a new chief executive officer in 2017 as a course correction to handle the fallout of the multiple scandals and resignations. Former Expedia CEO, Dara Khosrowshahi was selected by the Uber board of directors as the next CEO of Uber. Khosrowshahi has been viewed as a correction regarding Kalanick’s errors maintaining Uber’s toxic culture of sexual harassment, abusive speech toward a driver, and actions regarding President Trump’s controversial immigration policy (Thompson, 2017). Khosrowshahi, an immigrant from Iran, has been a vocal critic on the current Administration’s policies while also being viewed as calm, friendly, and approachable in the business world (O’Kane, 2017).

In 2018, as part of the process to rebuilding their image, Khosrowshahi has given extensive interviews regarding the changes he would implement at Uber and also apologies to various entities regarding ethical issues regarding Uber. Khosrowshahi has also focused 2018 on driver and rider safety such as including access to 911 in the Uber app and improving
background checks. Khosrowshahi summed all of his efforts, and his intentions going forward, at a speech titled “Reforming the Bro Chaos” to the Women of the World Summit (2018).

Khosrowshahi is so key to improving Uber’s image that he is starring in a series of add in mid 2018.
Chapter Four

Recommendations

Khosrowshahi’s efforts seem to be effective. Even as Uber lost $4.5 billion USD in 2017 they have casted their effort to improve their organization environment as part of their path to an initial public offering and taking the company public in 2019. However, Uber continues to be vague with their financial disclosures. Even in the 2017 report painting the loss in a positive light, in the fourth quarter the loss significant dropped, Uber uses different financial and accounting tools to present a favorable view of their finances. In view of the absence of complete reporting the actual financial positions of Uber may be far worse than discussed as a deeply in debt company unable to turn a profit due to the close margin for transportation costs. Even Amazon’s worse year only yielded a loss of $1.4 billion USD and resulted in the firing of 15% of their workforce (Nunez, 2016). Uber has yet to produce a profit or benefit from the years of financial investment. An open evaluation of the costs to the company to continue to subsidize the drivers and artificially lower the fare rate needs to be provided to future investors (Kortum, 2015). In addition Uber needs to continue hire high level leadership to fill positions that have remained empty for years such as the chief financial officer. Uber can offer up their continued massive growth on a global scale to counter balance their inability to produce revenue but unless a clear vision of the current finances and plan for future growth are presented Uber may find itself losing its investors (King and Newcomer, 2018).
References


