The Uber Bubble: Why Is a Company That Lost $20 Billion Claimed to Be Successful?

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In the first of three interrelated articles, transportation consultant Hubert Horan discusses Uber's "uncompetitive economics." There is no real innovation in the company's business model, he argues. Its market share is the product of predatory pricing and gigantic subsidies, not of higher productivity.

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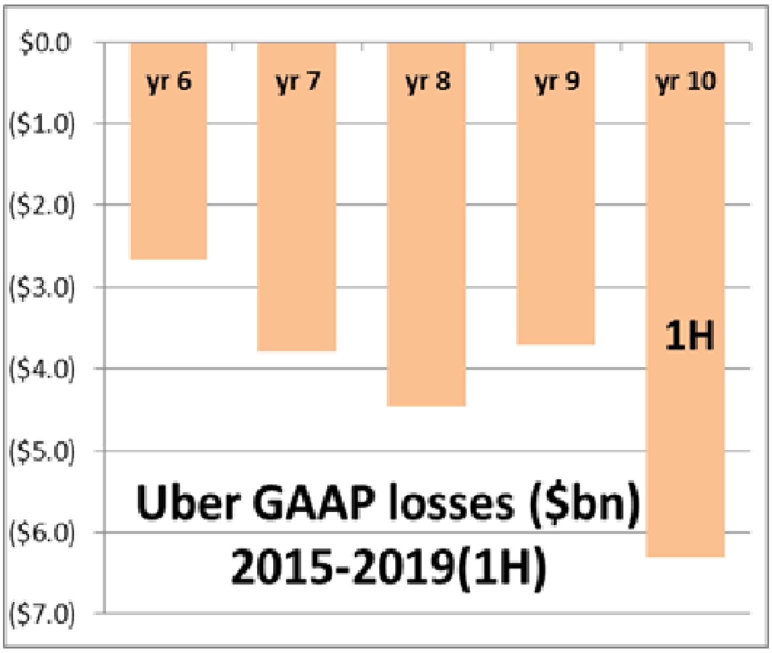
Why is Uber, a company that has lost over $20 billion and shows no signs that it could ever achieve sustainable profits, still widely seen as a successful, highly innovative company that has years of highly-profitable growth ahead? Why is it widely believed that Uber has brought major improvements to urban transport and huge welfare benefits for passengers when it has failed to establish a sustainably viable business model and was always explicitly pursuing artificial market power enabled by quasi-monopoly industry dominance?

This is the first of a three-part explanation. This first part provides an overview of Uber's uncompetitive economics and abysmal financial results for *ProMarket* readers unaware of the evidence. Part two will explain how Uber manufactured and promulgated false PR narrative claims that created its "innovative and successful" image and blocked awareness and discussion of the losses and subsidies that directly contradicted those claims. Part three will describe the indefensible work produced by Uber's "academic research" program, whose sole purpose was to create the false impression that major PR narrative claims were backed by independent research that met traditional academic standards.

Readers can find detailed discussion and documentation of these issues in two previously published papers. My 2017 *Transportation Law Journal* paper, which documents Uber's uncompetitive economics and its narrative programs, and my recent *American Affairs Journal* article which updates Uber's terrible financial results through this year's IPO.

Uber's Uncompetitive Economics

Uber (which began operating in 2010) has lost over $20 billion since the beginning of 2015. It is not (as it has long claimed) rapidly "growing into profitability" like previous Silicon Valley tech companies such as Facebook and Amazon, as it does not have the scale or network economies those companies had, and its cost structure has little in common with true tech companies.



Uber is actually a higher cost/less efficient producer of urban car services than the taxi companies it has driven out of business; individual Uber drivers with limited capital cannot acquire, finance, maintain and insure vehicles more economically than Yellow Cab; expenses other than drivers, vehicles, and fuel account for 15 percent of traditional taxi costs but Uber charges drivers 25-30 percent without coming close to covering their actual costs. All of Uber's early popularity and rapid revenue and valuation growth are explained by the billions in predatory investor subsidies needed to drive those more efficient (but poorly capitalized) incumbents into bankruptcy.

There is no independent evidence that any Uber "technological innovation" had any material impact on its cost competitiveness and there is no evidence that they had any impact on competition in any other industry. Uber's pricing system is far simpler than what airlines had 30 years ago. Oracle founder Larry Ellison noted that Uber's app was less sophisticated than something his cat could have developed.

Uber's margin gains have not come from efficiency improvements but from its ability to unilaterally cut driver compensation by 40 percent since 2016. These cuts reduced driver take-home pay below minimum wage levels in many markets and transferred over $3 billion from labor to capital.

Nothing in Uber's business model actually increased overall car service productivity or solved any of the taxi industry's traditional problems, which were due to structural issues common to all forms of urban transport. Service during peak periods (Saturday night; when it rains) was highly unreliable because the cost of peak capacity is 4-5 times higher than the cost of midday capacity (just like transit systems and expressways).

Taxi demand is sociologically bipolar; 35 percent of users have incomes over $100,000 and 55 percent have incomes under $40,000. Thus, on Saturday night wealthier people out for a night on the town compete for service with night shift workers who do not have transit options. Many neighborhoods were poorly served because the empty backhaul doubled the actual trip cost. Uber's surge pricing does not improve efficiency, it simply prices those night shift workers out of the market. And as Uber has demonstrated, unlimited taxi market entry can lead to ruinous overcapacity and can allow part-timers to cherry-pick the peak revenue that full-time drivers depend on to cover their costs.

Converting these growing multi-billion dollar losses into sustainable profits would require one of the greatest operating company turnarounds in history. There is no evidence that the market is willing to pay the true cost of Uber's service. Any attempt at a bankruptcy-type restructuring would wipe out its current owners and Uber does not have a sustainably profitable core business to reorganize around.

The Investor Relations section of Uber's corporate website.

Uber's Pursuit of Global Dominance and Unregulated Market Power

For 100 years, the taxi industry was highly fragmented and competitive. There had never been any strong tendency towards concentration in individual markets, and no evidence of synergies between markets. But Uber was always pursuing quasi-monopoly industry dominance, claiming its entry had magically converted the industry into a global "winner-take-all" game.

The only way Uber's investors could achieve outsized investment returns was to achieve industry dominance powerful enough to allow them to sustainably exploit the anticompetitive market power that companies like Amazon, Google, and Facebook have recently achieved. Uber's global dominance ambitions were widely understood across Silicon Valley. It was "in the empire-building phase" with a "massive burn in a play to conquer the world." Once dominant, every potential passenger and cab driver in every major city across the world would need to have Uber's app on their phone. That dominance and app ubiquity would eliminate the possibility of any serious competitive threat, create huge pricing power, and create opportunities to extract rents from other companies wanting to reach Uber's users. The investors' original expectation was they could reap billions in returns from an IPO before Uber's terrible economics became widely recognized.

Uber's investors also understood that maximizing future anticompetitive market power and rent-extraction potential required absolute laissez-faire. Uber was not pursuing more liberal entry and pricing rules but working to effectively nullify any form of governmental oversight. This meant eliminating the public's right to establish standards for market competition, safety, insurance, driver licensing, vehicle maintenance, or obligations to provide services to all people and neighborhoods in a city.

Uber's investors were attempting to seize effective control of the taxi industry from local citizens and their democratically elected governments. The "economic freedom" Uber was pursuing was the unfettered freedom to accumulate capital and the elimination of any conflicting laws intended to protect anyone else's welfare.

Travis Kalanick. Photo by Kmeron via Flickr [CC BY-NC-ND 2.0]

Uber's Growth Was Driven by Three Strategic Innovations

Amazon, Google, and Facebook established a two-part template for how a "tech startup" could achieve a 9-digit valuation. These companies first established a foundation based on legitimate product and efficiency breakthroughs (major e-commerce and distribution efficiencies, highly-valued new search, and social networking services) and demonstrated that their core business could earn sustainable, growing profits in competitive markets. Those efficient foundations supported further growth, industry dominance, and immunity from new competition. That allowed them to pursue more stratospheric valuations by exploiting anticompetitive market power and rent-extraction and buying out any potential competitive threats.

Uber is not just another "tech bubble" company that benefitted from extremely cheap capital and popular perceptions that "disruptive technology" could solve all the world's problems. Its strategy was based on three innovative components no other large startup had ever attempted.

Uber's first major strategic breakthrough was to completely skip the difficult "find legitimate product/efficiency breakthroughs" part and the even harder "achieve sustainable profits in competitive markets" part of the previous unicorn model. Uber's investors were the first to provide initially $13 billion (now over $20 billion) in funding in order to bulldoze incumbents who had lower costs but could not withstand years of predatory subsidies from Silicon Valley billionaires. This was 2300 times more pre-IPO funding than Amazon required, because Amazon could generate strong positive cash flow.

Uber's second major strategic breakthrough was the monomaniacal "growth at all costs" culture that original Uber CEO Travis Kalanick established during the earliest days of Uber's operation. This culture successfully intimidated most of Uber's early legal, journalistic, and political critics and helped create the widespread impression that Uber was an unstoppable power. This culture also directly produced the open lawbreaking, journalist harassment, obstruction of local law enforcement, competitor sabotage attacks on rape victims and other individuals who had sued Uber, and systemic sexual harassment within management. Companies that can generate positive cash flow do not have to tolerate this kind of behavior, but it was celebrated at Uber.


Uber

Uber's scandals, blunders and PR disasters: the full list

The company has had a seemingly never-ending string of missteps, from its controversial CEO to questionable tactics and sexual harassment claims

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A 2017 *Guardian* article on Uber's PR crises

Uber's investors fully supported this "growth at all costs culture" (and the huge losses incurred to support Uber's predatory behavior) and never uttered a word of complaint until 2017, when they realized that negative publicity about this behavior could threaten the IPO they were pursuing.

Uber's third major strategic breakthrough was to treat business development as an entirely political process, using techniques that had proven successful in partisan political settings. Uber's investors knew that it needed raw political power to accelerate growth, and to maintain its hoped-for dominance.

Amazon, Google, and Facebook didn't invest in major PR/lobbying efforts until after their core businesses had become securely profitable. Uber was the first startup where PR and lobbying had been a top priority from day 1. No other young startup had seen the need to hire a former Senior Advisor to a US president (David Plouffe) or the close confidant of a British Prime Minister (Rachel Whetstone) as senior PR executives.

This three-part strategy sustained Uber through ten years of massive losses that would have quickly destroyed any startup with a less sophisticated strategy. The fatal flaw was that Uber never achieved the dominance needed to exploit ACMP because the taxi industry never had the powerful scale/network economies needed to drive winner-take-all dominance.

Part two of this series will focus on how Uber used those political techniques to establish the image that it was highly innovative, powerfully competitive and had created huge public benefits while blocking economic evidence contradicting those claims. Part three will examine the "academic" component of Uber's PR narrative promulgation efforts, which was designed to create the false impression that major narrative claims were backed by rigorous, independent research that met traditional academic standards.

False Claims and Propaganda: Why Uber’s Narratives Are Wrong But Successful

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Uber’s narratives reduce everything to emotive battles between good and evil. If Uber’s success is inevitable, and resistance is futile, no one needs to waste time examining any actual economic or financial data.

A January 2015 demonstration in Portland, Oregon in favor of applying taxi regulations to ride-sharing apps. Photo by Aaron Parecki [CC BY 2.0], via Wikimedia Commons

Part one of this series documented Uber’s uncompetitive economics, its inability to earn sustainable profits in competitive markets, and its explicit pursuit of quasi-monopoly industry dominance. This second part will address the question of why a company that has lost over $20 billion and was always explicitly pursuing artificial market power enabled by quasi-monopoly industry dominance is still widely seen as a successful, highly innovative company that has created huge welfare benefits for passengers and cities.

Uber has always pursued growth and dominance using political techniques that proved successful in partisan political settings. In the second part of this series, I will describe the most important of those political techniques: Uber’s successful program for manufacturing and promulgating PR narratives. These narratives worked in conjunction with Uber’s massive predatory subsidies (which allowed it to bulldoze more efficient competitors) and its monomaniacal growth-at-all-costs culture and created an image of unstoppable power.

Detailed discussion and documentation for most of the material in this series can be found in my 2017 *Transportation Law Journal* paper and my recent *American Affairs Journal* article.

Uber's Narratives Were Wrong But The Media Ignored the Economic Evidence

Uber's narratives were consistently wrong, but since the media totally ignored the economic evidence that would have refuted them, they dominated public discussion for years. Narrative construction and promulgation may be Uber's greatest competitive strengths. Examples of Uber's many unjustified (or blatantly false) claims include:

> Uber grew because consumers freely chose its superior service in open, competitive markets (ignore the massive subsidies that grossly distorted market price signals).
>
> Uber's powerful technology can overwhelm incumbents in any market, anywhere (ignore the fact that the technology has never affected competition in any other industry, and Uber's dismal failure in markets like China, where incumbents were not fragmented and poorly capitalized).
>
> Existing taxi service problems were caused by regulations and corrupt regulators desperate to block Uber's innovation and job creation in order to protect the "evil taxi cartel" (there was no taxi industry cartel; Uber wanted people to believe the innocent victims in this battle were the Silicon Valley billionaires pursuing global industry dominance).
>
> Existing laws can't be applied to Uber, because "ride-sharing" is a totally new "sharing industry" with totally different economics (ignore the fact that the cost structures of Uber and Yellow Cab have the exact same components and nothing in Uber's model is being shared).
>
> Just like other tech companies, our startup losses will quickly become big profits and we (Uber) will eventually grow to the point where we displace car ownership and public transport (please ignore our actual costs, lack of scale economies, and actual profits and losses).
>
> Labor laws can't protect our drivers because we are a software company, not a transportation company, and drivers aren't important to our business (ignore the fact that Uber hasn't "sold" software to anyone that wasn't working for it).
>
> We'll become profitable when driverless cars allow us to eliminate the cost of drivers (ignore the fact that cars without steering wheels may never become widely available, will be much more expensive than today's cars for many years, and that Uber has no potential to dominate this industry).

Uber’s Narratives Were Copied From a 1990s Campaign Against Taxi Regulations

Uber was less efficient than Yellow Cab and could not produce positive cash flow, much less sustainable profits. Its communication program needed to generate widespread enthusiastic public support while completely diverting attention from its losses and subsidies. It needed to convince people that all of the taxi industry’s problems had been caused by regulations, and that the combination of Uber’s cutting-edge technological innovations and regulatory disobedience had solved them, thus generating massive benefits for passengers, drivers, and cities.

Uber’s origin story rests with an extensive 1990s political program conducted by pro-corporate and libertarian think tanks funded by Charles and David Koch. This program was not advocating more liberal taxi regulations, but the same total elimination of any form of public oversight over taxis, including safety and licensing, that Uber later pursued. All of Uber’s original PR narratives were taken from this campaign on an almost copy/paste basis.

The ’90s campaign narratives, repeated across dozens of publications, framed the elimination of taxi oversight as a heroic battle for progress, innovation, and economic freedom that would enable thousands of struggling immigrant entrepreneurs whose desire to drive taxis had been blocked by the “cab cartel” and the corrupt regulators beholden to it. A laissez-faire taxi industry would produce lower fares, reduce wait times, improve service in poorly served neighborhoods, and increase driver jobs and wages. None of these assertions were backed by any objective evidence or analysis.

The ’90s campaign was designed to create a one-sided debate, with arguments from its well-organized and well-financed supporters overwhelming any counterarguments that the fragmented taxi industry could prepare. The goals of this campaign were not achieved, because it had no local grassroots support and because local officials recognized that the risks of adopting radical changes to longstanding taxi regulations could not be justified by future benefits that were purely hypothetical.

Uber substituted “technology innovators” into the hero’s role originally occupied by “struggling immigrant entrepreneurs,” but otherwise used the same heroic us-versus-them framing, the same promises of magical gains, and the same demonization of the “evil cab cartel” and corrupt regulators that Uber’s investors needed to vanquish.

Uber’s multi-billion dollar investment base effectively weaponized the laissez-faire claims from the 1990s and ensured that its messaging would totally dominate media coverage. Uber won public opinion because its massive subsidies created the false appearance that its technology and regulatory disobedience had actually generated huge public benefits, and its monomaniacal culture intimidated the few journalists and politicians who tried to raise doubts.

A prototype of Uber's autonomous car in San Francisco. Photo by Dllu [CC BY-SA 4.0]

The Propaganda That Created an "Alternate Reality Bubble"

Uber's narratives (like the earlier Koch-sponsored laissez-faire claims) fit classic definitions of propaganda, including "deliberate, systematic attempts to shape perceptions, manipulate cognition, and direct behavior in ways that block interactive discussion," and "a massive orchestration of attractive conclusions packaged to conceal their actual purpose and lack of sound supporting evidence".

Instead of inviting discussion of alternative approaches to improve taxi service and finances based on objective industry data, Uber's narratives reduce everything to emotive battles between good and evil. Uber's narratives demanded people take sides in a black-and-white moral struggle between heroic innovators and corrupt regulators where compromise was impossible. Once people take sides in an us-versus-them political battle—out of ideological sympathy or because they want to be on the side likely to win—they tend to block out new information that might force them to recognize they'd been duped.

Uber's propaganda converted a battle that should have been based on competitive economics into a raw power game, one which investors willing to fund tens of billions in losses were much more likely to win. The combination of Uber's PR/propaganda program and its ability to project an image of unstoppable power allowed it to create a powerful alternate reality bubble. If Uber's success is inevitable and resistance is futile, no one needs to waste time examining any actual economic or financial data. And for many years, no one in the Silicon Valley tech world, or the business press, or the venture capital industry, or Wall Street, ever did.

> ***“Uber’s propaganda converted a battle that should have been based on competitive economics into a raw power game, one which investors willing to fund tens of billions in losses were much more likely to win.”***

Propaganda-Based PR Requires Elite Reinforcement

Uber’s ability over the last ten years to maintain the widespread perception that it is a successful, highly innovative company demonstrates that propaganda techniques can be just as effective in corporate startups as they have proven to be in partisan political settings. But, as successful political propaganda has long demonstrated, effective narrative promulgation requires the endorsement of seemingly independent elite channels. With sufficient repetition, the narrative claims of the propagandist become part of conventional wisdom and critical voices become marginalized.

Uber’s us-versus-them propaganda framing also manipulated the mainstream business and tech industry press into taking its side. Reporters based in Silicon Valley, who viewed technology as one of the main drivers of economic progress, readily endorsed Uber’s pre-packaged “heroic tech innovator” narrative, which was far easier than researching the economics of urban transport. Uber knew reporters were anxious to remain on friendly terms with the executives of the company that’s poised to become the next Amazon. Uber knew that once they’d published multiple stories about Uber’s powerful innovations, wonderful benefits, and inevitable success, the media would never retract these earlier glowing articles and acknowledge they had originally been duped.

The most emphatic endorsements of Uber’s narratives came from liberal-leaning mainstream publications like *The New York Times*, *The Washington Post*, *The Atlantic* and the *New Yorker*, whose relatively-wealthy readers liked that they were suddenly getting better taxi service at lower fares. These outlets were apparently oblivious to the fact that they were amplifying claims originally written by Koch-funded groups who wanted to undermine market competition, the concept of urban transport as a public good, and any form of regulatory oversight.

Uber’s propaganda successfully blocked media cognition of its actual economic and financial performance. Even after Uber’s horrendous run of bad publicity in 2017, or its trainwreck IPO, the mainstream media continued to ignore the question of whether Uber’s longstanding claims about powerful, technology-driven efficiencies had ever been independently verified, and failed to explain why Uber had failed to rapidly convert early losses into robust profits as Amazon and other tech unicorns had. None of the frequent stories about systemic sexual harassment at Uber suggested any link between bad behavior (which had been going on for years with the board’s full support) and a business model that required a hyper-aggressive growth-at-all-costs culture.

A 9,000 word *New Yorker* story about how new CEO Dara Khosrowshahi would save the company following its 2017 travails provided Uber with the “redemption” narrative it needed but made no attempt to explain Uber’s losses or what Khosrowshahi planned to do to eliminate them. A recent 350-page book by the *New York Times* reporter that had covered Uber, Mike Isaac, did not provide any data about losses or any other aspect of Uber's economics and portrayed the board rebellion and all other conflicts at Uber as personality issues unrelated to any debates about strategy, objectives, or performance.

That book illustrates how, even if the superficial norms of journalism are observed (there were no errors of fact), it could get the story totally wrong and badly mislead readers. There were other cases where allegedly independent journalists openly served as Uber advocates. In trying to get Kalanick to agree to an interview, Bloomberg's senior technology editor described his Uber book as a way to not only counter growing public criticism, but to get the public to embrace Uber's efforts to "change the way cities work," using his desire to get the public to understand Uber's story as leverage to get Kalanick to agree to interviews other journalists could not get. As with less-biased reporting, there was no attempt to explain Uber's losses or explain how it might ever become profitable. But less extreme examples of media malfeasance—such as the financial pressures that favor pre-packaged narratives over actual journalism, the near-exclusive focus on Uber's side of the story, and the failure to examine or explain Uber's economics —better explain why the public came to widely accept Uber's manufactured narratives.

The mainstream media treats corporate PR claims as if they were grounded in the same norms of factual accuracy and pursuit of truth more prevalent at university seminar discussions. Reporters enjoy their powerful high-status role as objective arbiters who can tell the public what to think about economic issues. But this position also makes them willfully blind to sophisticated and well-financed efforts to shape their coverage, as well as other techniques that deliberately violate their norms.

Part three of this series will examine the "academic research" component of Uber's narrative promulgation program, which was designed to create the false impression that major narrative claims are backed by rigorous independent research that met traditional academic standards.