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Uber IPO: Cab-hailing service providers need to focus on customer loyalty, provide sense of price fairness

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Uber made a loss of $1.8 billion in 2018. Nothing unusual in this since tech start-ups such as Amazon also lost money for years before turning profitable. But, would Uber be able to pull off a similar turnaround?

The company has filed public offering on the New York Stock Exchange and its shares will begin trading next month. Another tech-based transportation company Lyft, which recently went public, has seen its share price already dropping below the IPO price.

Uber has transformed the taxi market around the world. Millions who would not have otherwise used cabs, now use it regularly. It has provided work for thousands of taxi drivers and the quality of service has risen considerably. But no one seems to be happy and the company, by its own admission, will stay in a loss for a foreseeable future.

How did Amazon and Facebook, two innovation-based tech giants, succeed at this game?

First, by keeping prices low for customers and even free at the point of use. Second, by increasing the cost of switching to another service provider. Third, by raising profits by figuring out subtle ways to price discriminate. Finally, scaling up the customer base, big time.

Amazon's shipping business continues to be in the loss as it subsidises it to keep delivery charges low. Facebook vigorously denies that it will ever directly charge its users. Consumers pay for it, but only indirectly when firms which advertise on Facebook pass on costs into product prices.

In the case of the cab services, customers do not feel that they get a good price deal. Either they see a base price or its multiple, giving them a sense that they are getting overcharged. This is despite the fact that the Uber fare is, in effect, many times lower than the traditional taxi fares, especially adjusted for better quality.

Facebook and Amazon have also successfully employed the strategy of raising the cost of switching. For example, once we pay for Amazon prime for a year, we are unlikely to keep looking for deals and discounts on rivals such as Flipkart.

Facebook gives us a large free storage space and once we store our videos and photos on the platform, it becomes virtually impossible to move to another platform.

In the case of cab-hailing service companies, they haven't yet discovered a feature which would discourage their customers to check the rides on its rival apps alternatively. In fact, we do that all the time – check Ola, check Uber. Compare the fares, compare the waiting times, and then decide where to book.

When the price is perceived to be high and the cost of switching is low, it is difficult to gain customer loyalty. In recent times, cab-hailing service companies have introduced ride passes and Uber has announced Uber vouchers to lock us into using their service.

Amazon learnt quickly from adverse customer reactions to explicit price discrimination when it started selling DVDs online to customers at different prices around the year 2000. When customers realised it, there was a lot of resentment. Amazon now employs the strategy of discounts, bundling of products, special deals and so on to attract relatively price sensitive customers. In the case of cab-hailing service companies, when consumers do not know why prices differ, they display a lack of trust in a service provider.

Successful tech companies have to be able to spread their huge fixed cost of development on a large customer base in a well-diversified business, something that Uber is yet to achieve. No wonder, that the company now wants to establish itself as Amazon of transportation.

Overall, the new age cab-hailing service companies must scale up, focus on customer loyalty, gain their trust and provide a sense of price fairness if they ever hope to turn profitable.

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