Survive or Die?

Uber is an extraordinary company, but can it survive?

Pete Kelly, Managing Director

Uber is unique in a number of ways. It is probably the most disruptive company to ever enter the field of open-ground transportation services. Its growth in Gross Bookings (total takings before drivers are paid) is incredibly impressive. It has, nonetheless, been massively lossmaking since its 2009 launch. And its former boss described the arrival of Autonomous Vehicles – which, remember, do not yet exist in any significant sense – as "existential" to its survival.

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As a private company, Uber is not required to release full details of its finances. But what it does need is access to a steady inflow of investor cash to cover its losses. In other words, some information has to be made available in order to persuade investors to cover expansion now, in the hope of reaping the rewards further down the line.

According to information initially leaked, but now confirmed by the company, Uber's Gross Bookings were US$37 billion in 2017, an explosive increase from US$9 billion in 2015. Once driver-related payments are deducted, however, Net Revenues equated to US$7.5 billion last year, up from US$2 billion in 2015. This means that 70-80% of Gross Bookings have gone to drivers (and driver-related expenses), at least in recent years. But other operating costs have exceeded Net Revenues persistently, running at 140-170% of the latter, which explains the sustained losses.

If Uber's outlook is anything like its past, bookings will be even bigger in future, but stemming the losses may be challenging until a way can be found to spend less on drivers.

This is where Autonomous Vehicles come in as an existential factor. The problem is that nobody – and especially not Uber, following the fatal accident in the US in March – can confidently predict when this will happen. What if, as we suspect, truly viable and widely ranging Autonomous Vehicles take a decade or more to come about at scale?

Nor can unfettered growth be taken for granted, given that rising competition is preventing Uber's expansion in mega-population centres in South East Asia, India and, in different ways, China and Russia. Meanwhile, Lyft is proving to be a tougher-than-expected competitor in the US, while some mature Uber markets, not least London, are being less than hospitable to the company.

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Uber has suggested that it could, if needed, scale back spending for tomorrow in order to improve its profitability today. This may be true. But if it opts to do so, it would be walking a tightrope given the array of competitors advancing towards the same goal of shared mobility services that Uber had hoped to dominate.

In short, the big question for Uber is which will come first: viable Autonomous Vehicles, or a loss of investor confidence?