The Uber-all

A challenge to traditional

Uber is the poster-child for the future of consumer businesses. As a car service, it is not only remaking transportation but pioneering a new way forward for all categories. **J Walker Smith** describes how the Uber-all business model is attracting startups and investors while posing serious competition to established businesses. It is a perfect fit for what consumers want, for where the global economy is headed, and for employee skills in a labour market that is already being transformed by technology

THE GLOBAL economy continues to struggle. Even the cheapest oil prices in a generation are not enough to jump-start the world economy back to life. Growth is slowing in emerging markets. The EU is verging on another recession. The US is improving, but still remains well below years past.

As a result, wages have stagnated, inflation and prices remain weak, high-paying jobs are scarce, credit is still tight and consumer confidence continues to drag. Unfortunately, medium- and long-range forecasts foresee slowing growth as the new normal.

The state of the world economy presents a challenge to established ways of doing business because the old ways rely on an economy that no longer exists. Businesses have long pegged their plans and value propositions to expectations of aspirational consumers flush with discretionary income and motivated by an eagerness to buy. That model doesn't fit with the foreseeable future. The global economy is simply not operating like it used to. The economy has reset, so while growth is occurring, it is on a lower trend line.

Last year's headlines tell the tale: P&G, Unilever and Walmart all reported difficulties and cautious outlooks, symptomatic of business model mismatches with the current, and future, economy. What companies need to do is not to try to run faster, but to run in a new direction. A different model is required – one that reflects what consumers truly value and can actually afford.

The business model of the Uber-all economy best fits these circumstances.

WHAT IS THE UBER-ALL ECONOMY?

As established businesses struggle, Uber and companies with a similar business model have been succeeding. Even though the economy as a whole is problematic and many established businesses are struggling, these companies have found breakout opportunities. After its last round of fund-raising, Uber's estimated market capitalisation is more than LinkedIn and Tesla, more than Delta and Hertz, and closing fast on General Motors and Starbucks.

Companies with an Uber-like business model are a favourite of investors right now. Dozens of startups are taking on established players in categories such as dining, delivery, home services, events and transportation. Companies must not overlook this threat. While Uber-all services and products differ in form and execution, those investors and companies believe their value propositions will prove more satisfying to consumers, so they are coming hard for customers, market share and profits. This is what the Uber-all business model is doing in every category – reconfiguring how benefits will be profitably delivered to consumers.

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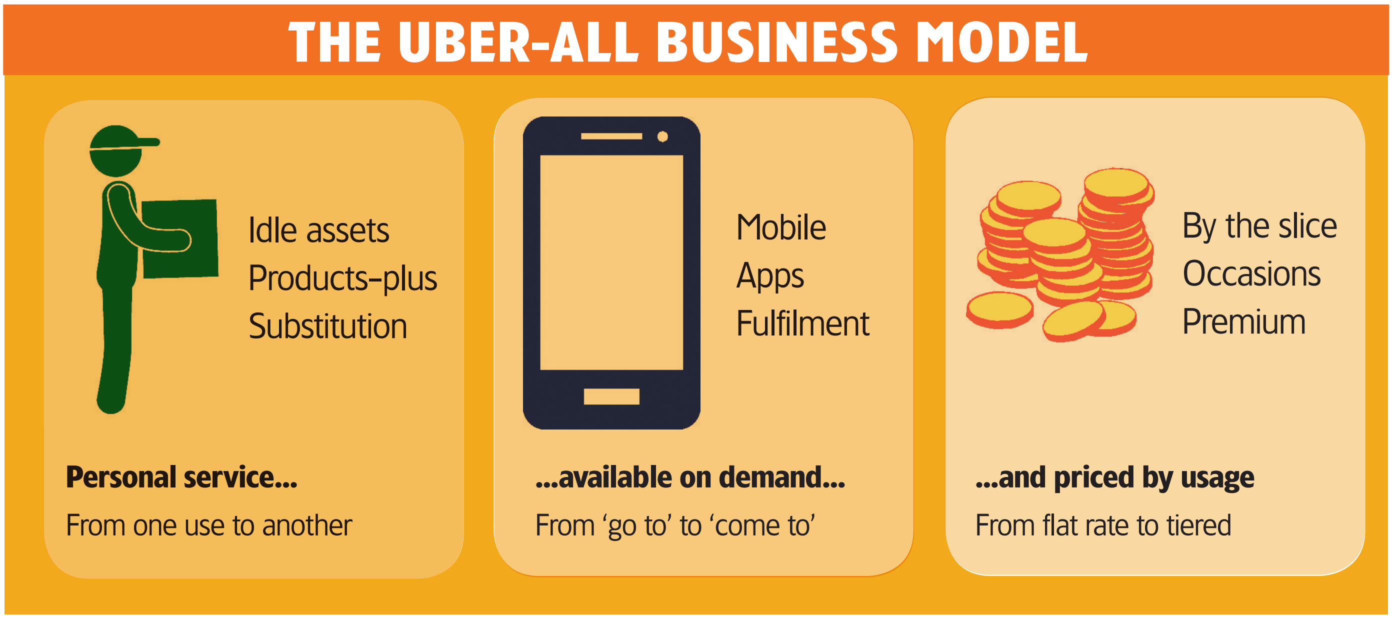
Uber-all is not merely the Uber brand. It's anything and everything based on an Uber-like business model. Pick one category for the sake of discussion – say, a traditional, well-established category like laundry detergent. The competitive set is not just the products on a supermarket shelf. In the US, the competitive set includes companies such as FlyCleaners, Washio, Rinse and Dryv, which, like Uber, operate on-demand with a mobile app. These companies pick up a consumer's dirty laundry, clean it and return it right away, ready to wear. Obviously, these companies are not directly substitutable with a bottle of liquid laundry detergent, but they are direct substitutes for the same benefit: clean clothes when the consumer needs them.

No product or category benefit is exclusive to any particular product form or retail location. All benefits, no matter what they are, can be made available to consumers in many ways, and that is the threat to established brands posed by the Uber-all economy. It is a fallacy to suppose that product forms and product benefits are inextricably intertwined. Benefits are all that matter to consumers. The Uber-all economy is about reconfiguring how those benefits are satisfied.

Uber's success as a car service is confirmation of both the opportunity and the threat. For example, because of Uber's

economy business models



success, the value of taxi medallions in New York City has begun to drop after decades of steady increases. Similarly, demand for cab rides in San Francisco is down by two-thirds since the beginning of 2012. But Uber is thinking beyond taxis. It wants to compete with car manufacturers, logistics firms, delivery services – with any business that has anything to do with transportation. Uber will even affect housing, which, after all, is built on a grid that presumes a certain transportation network. Once Uber affects the profitability of that network, all bets are off.

THE UBER-ALL BUSINESS MODEL

Boiled down to its essence, three things comprise the Uber business model.

1 **Personal service**. Uber is a personal service of drivers. Washio and FlyCleaners are services for washing your clothes.

Products and goods are affected, not just services. Uber-all companies want to substitute their services for the products of established competitors. It is working. On-demand services are growing strongly while everything else is slowing.

Uber-all services will grow as they become substitutes for products, converting the service aspect of themselves into a viable alternative in the minds and consideration sets of consumers. The concept at work here is conversion. If a brand is not a service today, its value needs to be tied to service, and this service should convert a poor asset into a more valuable one. For Uber itself, idle car and driver assets are converted from non-use to use.

Products and goods must add a service or find a service in which to get embedded. Products have to act like services. The value of products has to be more than the product itself. Service brands need to innovate what they do in order to stay ahead of the broader conversion of value in every category into something tied to service.

2 **On-demand**. The second element is on-demand – specifically, availability any time, anywhere.

More to the point, this is about availability of the benefit itself. The benefit needs to be provided immediately. Speed, convenience and immediacy are the operative concepts.

Mobile apps have been central to this. But it is really about fulfilment in whatever way is fastest. Mobile apps are the way to do that for many categories, but it's about the best way of delivering with immediacy, not about technology *per se*.

In short, this is moving from the 'go to' marketplace of the past, where consumers had to go to someplace to get the benefit, to a 'come to' marketplace in the future, where the benefit or service will come directly to consumers – and immediately so at that.

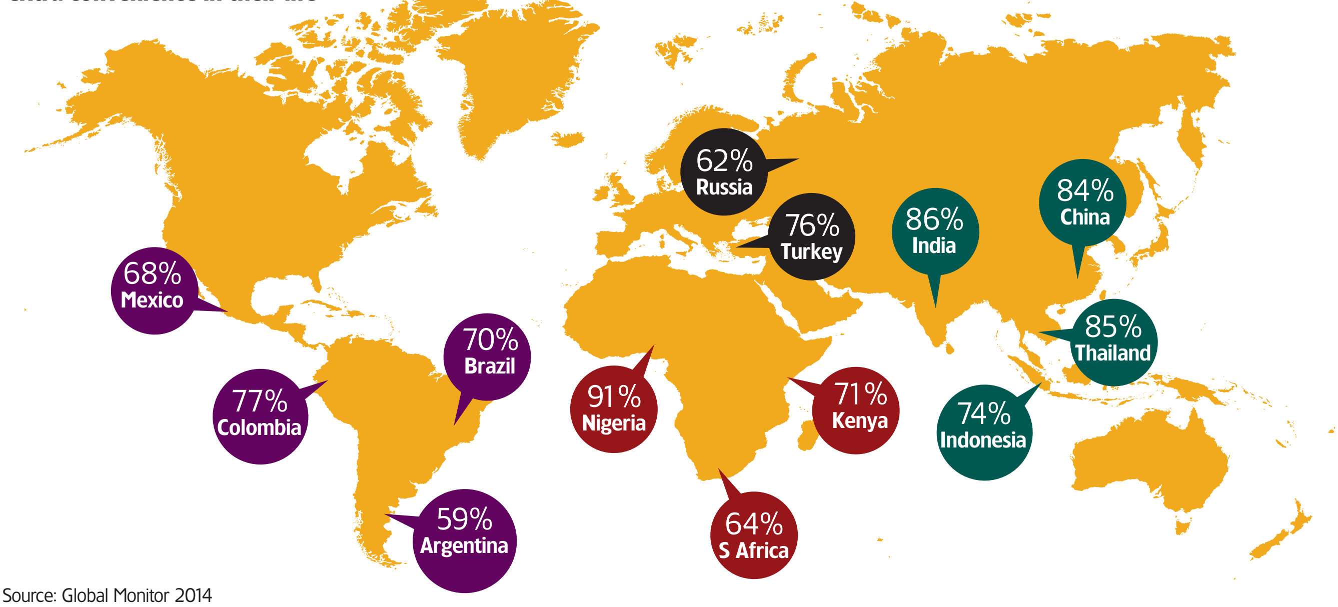
3 **Pricing**. The final element is pricing – more specifically, pricing by usage.

This is the most misunderstood piece of the Uber-all business model, largely because many of the new on-demand mobile services charge a premium. But premium pricing is not the essence of it. The essence is pay-as-you-go.

The Uber-all business model is pricing for usage, rather than pricing for ownership. The typical pricing approach today is based on accumulation, not usage or demand in the moment. It's stocking up or subscribing or ▶

FIGURE 1: Service is where the action is

Respondents who are somewhat/very likely in the next 12 months to pay for a service that provides extra convenience in their life



Source: Global Monitor 2014

collecting. That's pricing by accumulation, not pricing by usage.

With the Uber-all business model, a brand sells by the slice – no more than a consumer needs in that moment.

This has a very particular implication. It puts occasions at the centre of the value equation. Not people. Not segments. Not products. For the Uber-all business model, it's occasions.

Most occasions will be ordinary, so pricing will have to be cheap. But some occasions will be extraordinary and special, and thus able to command a premium. This is the key to unlocking value-added opportunities in a slowing world economy. Uber-all moves from flat rates that are the same no matter the occasion to tiered rates that better match demand on particular occasions.

Uber calls its premium pricing 'surge pricing'. But note that there are no 'surge consumers'. There are no 'surge drivers' or special 'surge cars'. Just 'surge occasions' for which 'surge pricing' applies to all consumers.

There will be an evolution of pricing with the Uber-all business model. In the early stages of growth, most Uber-all companies will target a niche willing and able to pay a premium price for on-demand access and delivery. Once this foundation is secured, these companies will expand their footprint by adding an affordable option for a mass consumer target. This is the trajectory followed by Uber, which started with the upscale Uber Black service and then later added the mid-to-lower-scale UberX.

WHY THE UBER-ALL ECONOMY IS A GOOD FIT FOR THE FUTURE

The worrisome global economy has a lot to do with Uber-all being the sweet spot of opportunity in the marketplace. But whether the economy is good or bad, there are other, overarching dynamics that make the Uber-all business model a good fit. Indeed, as the economy improves, the momentum behind this business model transition will accelerate.

1 **Providing service immediacy.** The future of service is about immediacy. We know this from Amazon. A central element in its growth over the past two decades has been an unrelenting focus on speed. In 1997, it introduced 1-Click. In 2005, it introduced Amazon Prime with expedited two-day delivery. In 2009, it ratcheted up speed with same-day delivery. In 2013 it formed a partnership with the US Postal Service for Sunday delivery and Jeff Bezos made a special appearance on *60 Minutes* to announce Prime Air drones to make deliveries within 30 minutes. In short, Amazon is creating more value for the goods it sells by wrapping them in a service and delivery package that is all about immediacy.

While Amazon changed perceptions about speed, Uber is changing expectations that there must be a trade-off between fast and cheap. With the Uber-all business model, there is no such trade-off – cheaper UberX arrives just as fast as costlier Uber Black.

With Uber, speed is not the driver of price. Instead, price is driven by occasions. Speed is the essence of every Uber offering, whatever the price. There is simply no slow option with Uber. The rise of the Uber-all economy means that consideration sets will no longer be about what works as well as competitive brands, but what is available as quickly as, or more quickly than, other brands.

2 **Unlocking value-added pricing opportunities**. Broadly speaking, the traditional approach for brands looking for value-added premium markets is to target people who can afford to trade up. This classic focus is harder than ever. Trends in the global economy mean such people are fewer and farther between, especially the aspirational middle-class consumers willing and able to trade up.

Because the focus of the Uber-all business model is on occasions, the objective is to target moments when price sensitivity is not a factor – which are occasions so special or so critical that people of every means, high and low, are indifferent to price. They want

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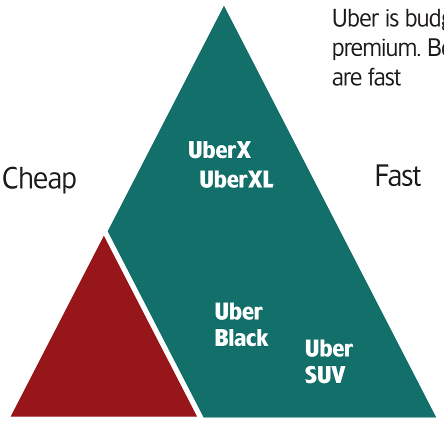
FIGURE 2: The future of service is immediacy



There is no price or quality at which there is any such thing as 'slow Uber'

FIGURE 3: Right match for household resources

Unlocks value plus pricing opportunities

Not targeting people who are willing and able to pay a premium

Fewer and farther between

Targeting occasions in which people of all means are price-indifferent

Service on demand worth it

the service in that moment, and the price is worth it on that occasion.

This bifurcation of pricing is on-trend with a consumer marketplace that is headed high and low. There is a misunderstanding that scarcity of time or money just pushes people low. In fact, it also pushes them high. When there's only a little time or money to go around, spending it on something average is just as big a waste as overspending on something bad. Neither offers full value for the scarce minute or scarce dollar.

Consumers want 'superstar' as much as 'super-sale', and in this situation brands need a pricing and value proposition that unlocks both. The Uber-all business model does exactly that.

3 **Paralleling the shape of labour markets transformed by technology**. Perhaps the most interesting thing about the Uber-all business model is the extent to which it fits tightly with the future of the labour market. The biggest factor changing employment is not economic but technological. Robotics and software are completely restructuring jobs.

Two technology experts at Oxford University examined all job categories tracked by the US Commerce Department. Using models that compared skills required for thousands of individual jobs to the myriad capabilities of computers, they found that nearly half of all jobs in today's US labour market will soon be displaced by computers.

Broadly speaking, the jobs that remain will be in one of two buckets – either jobs for people running technology or jobs in which people sell their personal services to those with jobs running technology. This bifurcation of the labour market was the subject of a 2013 bestseller called *Average is Over* by George Mason University economist Tyler Cowen.

Many experts fear that technology is shrinking the job market permanently, but irrespective of whether or not that is true, technology will most assuredly change the nature of whatever jobs remain for humans to do. There may be more jobs or fewer jobs, but the jobs available will be one of two types – jobs running technology and jobs selling personal services.

What makes the Uber-all business model such a tight fit with the future of the labour market is its match with this technologically-driven restructuring of jobs into two broad types. The Uber-all business model is exactly this intersection of technology and personal services. Companies with Uber-like models are built on precisely this twofold mix of job skills. These companies are run by people who manage the underlying technology and the benefits are delivered to consumers by people selling their personal services to and through these companies.

In the future, the talent pool will consist of technology specialists on the one hand and people skilled in personal services on the other hand. Whatever companies do, they will have to draw from these two types of human resources. That's what will be available. Today's Uber-all ecosystem of startups shows how to do that. Uber and Uber-like companies are on the cutting edge of bringing together these two pools of the labour market of the future. This is what makes the Uber-all economy a perfect analogue for the future of work.

PLANNING AHEAD FOR THE UBER-ALL ECONOMY

The overarching imperative is to Uber-ise businesses and brands. But even if they do not adopt this business model, at the very least businesses must prepare to protect themselves against competitive Uber-all businesses and brands.

Focus first on service. Where is service headed? What types of service have potential? What formats seem promising?

Second, drive immediacy. Understand the trends that are changing expectations about speed and how this matters relative to re-engineering infrastructure.

Finally, dig deeper into occasions. That's what shapes pricing and what will open up high- and low-value opportunities.

The future is at hand. The Uber brand is leading the way, but the Uber-all economy is what's around the curve.

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This is a substantially edited version of a webinar presentation to be found at thefuturescompany.com/free-thinking/uber-all