



## USC RESEARCH BANK

<http://research.usc.edu.au>

This is the published version of:

Tham, Aaron (2015) The ubiquitous tide of Uber: Disruptive innovation in tourism and hospitality. 25th Council for Australasian University Tourism and Hospitality Education (CAUTHE) Annual Conference: Rising Tides and Sea Changes: Adaptation and Innovation in Tourism and Hospitality, 2-5 February 2015, Gold Coast, Australia.

### **PERMISSIONS**

Permission has been granted by the copyright holder to deposit this published version as Open Access in the USC Research Bank. Open Access research is digital, online and free of charge, and is made possible by the consent of the author or copyright holder.

Copyright © 2015 CAUTHE. Reproduced with permission of the copyright holder.

## THE UBIQUITOUS TIDE OF UBER: DISRUPTIVE INNOVATION IN TOURISM AND HOSPITALITY

Aaron Tham

### ABSTRACT

This working paper is concerned with the developments of Uber as a smartphone-mediated transport company. Founded in 2009, Uber operates across 45 countries with the company valued at US\$18 billion. The ubiquitous tide of Uber has impacted tourism and hospitality. As a competitor to mainstream taxi operations, cab drivers in several cities globally have protested against the company because of potential threats to their livelihoods. From a commuter's perspective, there are concerns surrounding the use of Uber relating to the lack of clarity as to the duty of care when engaging private drivers at a destination. Yet, the rise of Uber has polarised the tourism and hospitality scene, with some destinations favouring their entry while others vehemently opposed to their presence. Amidst this backdrop, several commuters and drivers have subscribed to the use of Uber across Australia. This paper explores the factors leading to the adoption of Uber.

**Keywords:** *Uber; disruptive innovation; ridesharing; transport*

### INTRODUCTION

Founded in 2009, Uber (<https://www.uber.com/>) is a company that prides itself on the ability to link commuters with private drivers in getting to a particular destination. The company leverages its operations over smartphone applications, where a commuter can easily access Uber and organise a transport arrangement with a driver in the vicinity (Downes, 2013). As at June 2014, Uber was reportedly worth US\$18 billion (Dickey, 2014). Uber now operates in over 45 countries (Uber, 2014). At the core of Uber's business is the provision of transport from an origin to a destination.

Some issues have surfaced about Uber's business proposition. Tourists may be susceptible to safety risks in unfamiliar tourism environments (Rayner, 2014). There are also reports of Uber taxi drivers robbed by supposed 'tourists' (Carney, 2014). For this reason, some countries around the world have vehemently opposed their presence, while others have favoured their entry (Adhikari, 2014; Hong, 2014; Scott & Eddy, 2014). Clearly, Uber has polarised opinions as to their business model. Major Australian states such as New South Wales, Victoria and South Australia have already tagged hefty fines for commuters and drivers who utilise the Uber service (Atfield, 2014). In the past six months, taxi drivers in some cities have protested in response to the potential threat of Uber towards their livelihoods (Plimmer, 2014). Despite such circumstances, adopters of Uber have emerged, though very little is known about their typologies or factors leading to adoption. The ubiquitous tide of Uber is the focus of this paper.

In a tourism and hospitality context, transportation is a core sector of the industry (Khadaroo & Seetana, 2008). Prideaux (2000) argued that a well-developed transport system increases the likelihood of destination selection. Evidently, the mobility of tourists within a destination hinges on a transport system that is safe and reliable (Albalade & Bel, 2010; Palhares, 2003). As Uber is operating in the transport sector, their impacts to tourism and hospitality cannot be ignored. A tourist can have multiple Uber engagements in a day, and probably with different drivers and vehicles. Drawing from Christensen's (1997) theory of disruptive innovation, this paper analyses the current state of Uber adoption in Australia.

### LITERATURE REVIEW

Literature is drawn from broader disciplines of innovation and consumer behaviour. These two disciplines have been selected because of the nature of Uber's business model and its impact on purchase decisions. Conducting the literature review on these disciplines provides a better position to address the aims of the research.

### ***Innovation***

Literature reveals several definitions of innovation (Thompson, 1965; Van de Ven, 1986; West & Anderson, 1996; Wong, Tjosvold & Liu, 2009). A recurring theme is that innovation is an outcome of modification from existing products and services (West & Anderson, 1996; Wong *et al.*, 2009). While there are some common themes among these definitions, it must be emphasised that no universal definition for innovation exists (Baregheh, Rowley & Sambrook, 2009). Rather, the onus is on characterising the type of innovation.

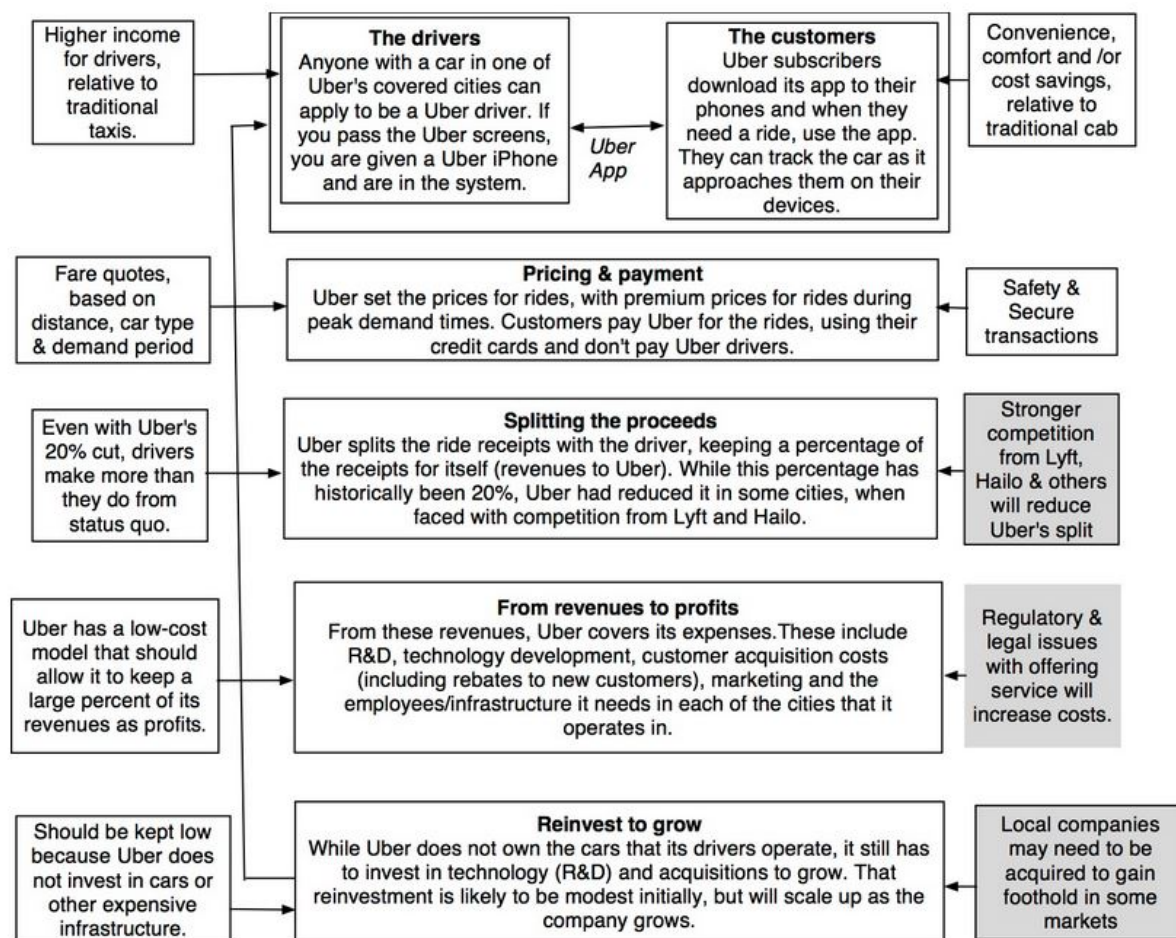
Several types of innovation are found. For instance, innovation may be reflected in product development through technological advances (Garcia & Calantone, 2002). Another type is business process innovation (Damanpour, Szabat & Evan, 1989). An example of business process innovation may be observed in the Sheraton Dallas hotel where the modification of laundry washing behaviour achieved cost savings (Mest, 2013). Other types of innovation include marketing and organisational learning (Darroch & McNaughton, 2002; De Propriis, 2002; Varis & Littunen, 2010).

Some studies have paid attention to the rates of innovation diffusion (Bass, 1980; Robertson, 1967). Rogers (1962) conceptualised the diffusion of innovation curve to comprise five temporal stages, which are innovators, early adopters, early majority, late majority and laggards. Most individuals are postulated to fit in the early and late majority stages, as new innovations are likely to appeal to some individuals, while others may follow subsequently (Valente & Rogers, 1995).

An application within innovation is the theory of disruptive innovation (Christensen, 1997). Disruptive innovation is suggested to be a process of developing business products or services that over time, displaces established competitors in the marketplace (Schmidt & Druehl, 2008; Yu & Hang, 2010). For instance, low cost airlines have streamlined their operating costs by having fewer aircraft types and using online systems (Leavy, 2004). Guttentag (2013) also found AirBnB to be a disruptive innovator within the accommodation sector by turning private homes into business potential. Therefore, there appears to be some evidence of disruptive innovation within the tourism and hospitality setting. These studies have shown that some organisations have established themselves amidst their competitors.

In this paper, Uber may be construed to be a disruptive innovation. Their mode of entry to the marketplace has been one of a low cost approach. Uber offers its customers the ability to organise travel arrangements over smartphone applications. This therefore, reduces the need for intermediaries that are associated with call centres for mainstream taxi operators. As such, the company is able to offer lower prices to its clientele. Further, by offering its drivers a direct share of the profits earned per ride, the company has attracted several drivers to be part of their operations. Figure 1 shows the business model at Uber.

Figure 1: The Business Model at Uber



Source: Damodaran (2014)

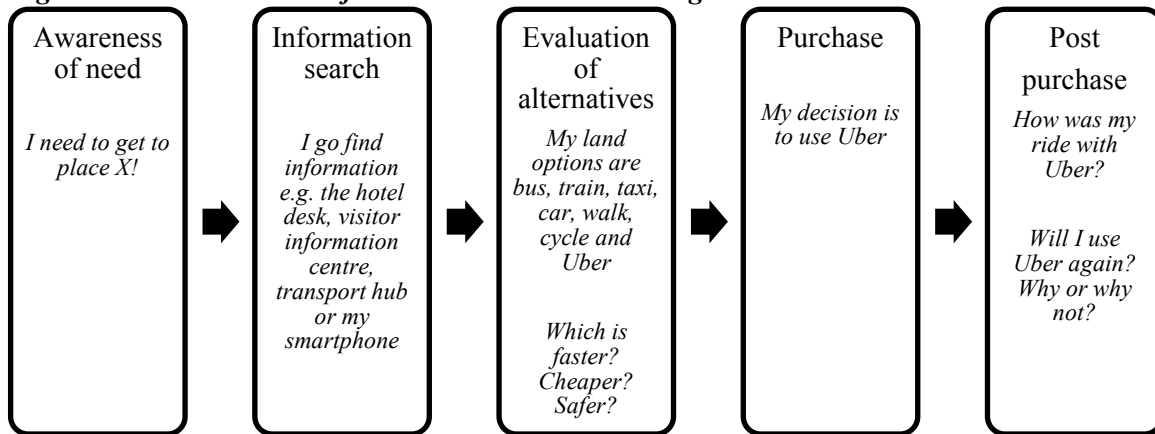
The case of Uber demonstrates the company's willingness to compete and entrench themselves in the transportation sector. In the spirit of innovation, the company reflects the desire to modify their business model aimed at displacing their competitors to become a preferred choice for transportation, which serves a vital cog within the tourism and hospitality industry.

### Consumer behaviour

Consumer behaviour is the study of how individuals make purchase decisions (Moutinho, 1987). Early scholars examining consumer behaviour characterised the decision-maker to be a rational problem solver (Blundell, 1988; Gabbott & Hogg, 1994). In other words, the purchase decision was derived from the choice of an alternative that generated the highest possible economic value. Since its origins, consumer behaviour has evolved to incorporate other factors associated with the purchase decision. These include the role of psychographics and other emotional cues (Santos & Boote, 2003). These various considerations are attached to a purchase decision, and are likely to differ depending on the context (Watson & Spence, 2007).

Nonetheless, there is general agreement that consumer behaviour is a process that involves five stages. These are awareness of need, information search, evaluation, purchase and post-purchase (Howard & Sheth, 1969). In this paper, stages of consumer behaviour also apply to decision-makers determining how they will travel from an origin to a destination. Figure 2 illustrates a mental schema as to how the consumer behaviour model may be operationalised in the context of Uber.

**Figure 2: Mental Schema of Consumer Decision-Making Related to Uber**



Whilst Figure 2 represents the adoption of Uber from a tourist perspective, the paper will also explore the factors for drivers joining the Uber network. At present, very little is known about the typology of Uber drivers and reasons for their participation (Bondar, 2014).

To both drivers and tourists, Uber requires the use of smartphones for a transaction to occur. Smartphones have become more pervasive in the marketplace with the launch of different brands such as Apple and Samsung feeding the desire to maintain connectivity while on the move (No & Kim, 2013; Wang, Xiang & Fesenmaier, 2014). Pertinently, smartphones are now a viable mode for transactions, such as Uber. As the adoption of smartphones increases, there is now a greater potential for tourism practitioners to offer their products and services for sale (Okumus & Bilgihan, 2014).

Collectively, the extant literature is positioned to reflect that disruptive innovation has entered the tourism and hospitality landscape, though very little is known from a consumer behaviour standpoint. Informed by the gaps in literature, this paper investigates the factors leading to the adoption of Uber from both tourists and drivers.

## METHODS

To address the aims of the research, a mixed method approach is undertaken. A sample that best fits the profile of Uber users will be obtained from existing social media sites (such as forums and blogs). A Google search of Uber has revealed some potential sites that may be used to post an expression of interest. These sites, in alphabetical order, include:

<http://forums.2k.com/showthread.php?716551-I-m-sure-nobody-cares-but-I-just-realized&p=6722721>  
<http://forums.anandtech.com/showthread.php?t=2363264>  
<http://forums.macnn.com/89/macnn-lounge/512940/uber-taxi-drivers/>  
<http://forums.somethingawful.com/showthread.php?threadid=3664737>  
<http://forums.whirlpool.net.au/archive/2009816>  
<http://forums.whirlpool.net.au/archive/2253674>  
<http://milepoint.com/forums/threads/how-to-use-uber-for-airport-pickup.98775/>  
[https://twitter.com/Uber\\_Sydney](https://twitter.com/Uber_Sydney)  
<http://ubercab.tumblr.com/>  
<http://uberdriverdiaries.com/diaries/discussion/13/waitlisted/p1http://uberpeople.net/>  
<http://www.ausgamers.com/forums/general/thread.php/3444154>  
<http://www.australianfrequentflyer.com.au/community/car-hire-taxis-and-limos/uber-comes-to-australia-44722.html>  
<https://www.facebook.com/pages/Uber-Driver/245578128906867>  
<https://www.facebook.com/uber>



<https://www.ozbargain.com.au/node/149601>  
<http://www.reddit.com/r/uberdrivers/>  
<http://www.ricksteves.com/travel-forum>  
<http://www.trafficlaw.com.au/forum/viewtopic.php?f=31&t=3082>  
<http://www.tripadvisor.com.au/SearchForums?ff=461&geo=255068&scope=1&q=uber&x=8&y=9&p id=34633&s=+>  
<http://www.yelp.com.au/biz/uber-sydney-ultimo>

Permission will first be obtained by the administrators/moderators, if any, prior to posting of the expression of interest on these social media sites. When potential participants have responded to be part of this research, then they will be screened to fit the criteria of being Uber customers or drivers and located within Australia. Once these have been ascertained, a participant will be issued with an explanatory letter stating the overall aims of the research and also that their participation is on a voluntary basis. Informed consent will then apply and the researcher will email each participant with an online questionnaire for completion and those who agree to be subsequently interviewed (face to face, phone or Skype) will be contacted. A pseudonym will be provided to each participant to de-identify them, as the adoption of Uber is viewed positively in some parts of the country whereas other regions have slapped hefty fines on consumers or drivers. Data will be collected over the summer months (December 2014-February 2015) as this is typically the peak of the tourist season and correspondingly, a likely increase in Uber trips. Being an exploratory study, an estimated sample size is 50-60 participants. An alternative method that could be utilised is a snowball sample where participants have provided some other family or friends who are Uber consumers or drivers. Data will then be analysed using descriptive statistics and content analysis.

## RELEVANCE OF STUDY

The relevance of the study addresses the growing body of interest surrounding Uber's entry into transportation sector in many destinations around the globe. Amidst concerns with safety and regulations, the adoption of Uber has already commenced and cannot be ignored. Findings from the study provide further clarity to understand what factors account for tourist and driver adoption and can then be used to steer managerial implications within the tourism and hospitality industry.

## REFERENCES

- Adhikari, S. (2014). *Uber rolls out its business service to Australia*. Retrieved 1 October 2014 from <http://www.heraldsun.com.au/business/breaking-news/uber-rolls-out-its-business-service-in-australia/story-fnn9c0hb-1227076562390?nk=9c1203be99c4e95e6868f5484d487b0e>
- Albalate, D., & Bel, G. (2010). Tourism and urban public transport: Holding demand pressure under supply constraints. *Tourism Management*, 31(3), 425-433.
- Atfield, C. (2014). *Fare's fair in taxi industry's battle with Uber*. Retrieved 1 October 2014 from <http://www.smh.com.au/digital-life/digital-life-news/fares-fair-in-taxi-industrys-battle-with-uber-20140826-108qkt.html>
- Baragheh, A., Rowley, J., & Sambrook, S. (2009). Towards a multidisciplinary definition of innovation. *Management Decision*, 47(8), 1323-1339.
- Bass, F. M. (1980). The relationship between diffusion rates, experience curves, and demand elasticities for consumer durable technological innovations. *Journal of Business*, 53(3), S51-S67.
- Blundell, R. (1988). Consumer behaviour: Theory and empirical evidence – A survey. *The Economic Journal*, 98(389), 16-65.

- Bondar, G. (2014). *How I became a Uber driver*. Retrieved 2 October 2014 from <http://www.smh.com.au/small-business/startup/how-i-became-a-uber-driver-20140806-3d82e.html>
- Carney, M. (2014). *With another Uber driver robbed in LA, questions mount about safety of ride-sharing apps*. Retrieved 1 October 2014 from <http://pando.com/2014/08/25/with-another-uber-driver-robbed-in-la-questions-mount-about-safety-of-ride-sharing-apps/>
- Christensen, C. M. (1997). *The innovator's dilemma: When new technologies cause great firms to fail*. Boston: Harvard Business School Press.
- Damanpour, F., Szabat, K. A., & Evan, W. M. (1989). The relationship between types of innovation and organizational performance. *Journal of Management Studies*, 26(6), 587-602.
- Damodaran, A. (2014). A disruptive cab ride to riches: The Uber payoff. Retrieved 2 October 2014 from <http://www.forbes.com/sites/aswathdamodaran/2014/06/10/a-disruptive-cab-ride-to-riches-the-uber-payoff/>
- Darroch, J., & McNaughton, R. (2002). Examining the link between knowledge management practices and types of innovation. *Journal of Intellectual Capital*, 3(3), 210-222.
- De Propriis, L. (2002). Types of innovation and inter-firm co-operation. *Entrepreneurship & Regional Development*, 14(4), 337-353.
- Dickey, M. R. (2014). *An early Uber investor says the company could be worth a lot more than \$US17 billion*. Retrieved 1 October 2014 from <http://www.businessinsider.com.au/uber-investor-bill-gurley-defends-valuation-2014-7>
- Downes, L. (2013). *Lessons from Uber: Why innovation and regulation don't mix*. Retrieved 1 October 2014 from <http://www.forbes.com/sites/larrydownes/2013/02/06/lessons-from-uber-why-innovation-and-regulation-dont-mix/>
- Gabbott, M., & Hogg, G. (1994). Consumer behaviour and services: A review. *Journal of Marketing Management*, 10(4), 311-324.
- Garcia, R., & Calantone, R. (2002). A critical look at technological innovation typology and innovativeness terminology: A literature review. *Journal of Product Innovation Management*, 19(2), 110-132.
- Guttentag, D. (2013). AirBnB: Disruptive innovation and the rise of an informal tourism accommodation sector. *Current Issues in Tourism*. doi: 10.1080/13683500.2013.827159
- Hong, K. (2014). *The war Uber faces: how it's battling GrabTaxi and Easy Taxi in Southeast Asia*. Retrieved 1 October 2014 from <http://thenextweb.com/asia/2014/08/12/the-war-uber-faces-how-its-battling-grabtaxi-and-easy-taxi-in-southeast-asia/>
- Howard, J. A., & Sheth, J. N. (1969). *The Theory of Buyer Behavior*. New York: Wiley.
- Khadaroo, J., & Seetanah, B. (2008). The role of transport infrastructure in international tourism development: A gravity model approach. *Tourism Management*, 29(5), 831-840.
- Leavy, B. (2004). Outsourcing strategies: Opportunities and risks. *Strategy & Leadership*, (32)6, 20-25.

- Mest, E. (2013). Help your linens last longer: Every wash counts. Retrieved 2 October 2014 from <http://www.hotelmanagement.net/laundry/help-your-linens-last-longer-every-wash-counts>
- Moutinho, L. (1987). Consumer behaviour in tourism. *European Journal of Marketing*, 21(10), 5-44.
- No, E., & Kim, J. K. (2013). Determinants of the adoption for travel information on smartphone. *International Journal of Tourism Research*. doi: 10.1002/jtr.1945
- Okumus, B., & Bilgihan, A. (2014). Proposing a model to test smartphone users' intention to use smart applications when ordering food in restaurants. *Journal of Hospitality and Tourism Technology*, 5(1), 31-49.
- Palhares, G. L. (2003). The role of transport in tourism development: Nodal functions and management practices. *International Journal of Tourism Research*, 5(5), 403-407.
- Plimmer, G. (2014). *Taxi protest against Uber snarls up London traffic*. Retrieved 1 October 2014 from <http://www.ft.com/intl/cms/s/0/3ec6b8e2-43cc-11e4-8abd-00144feabdc0.html#axzz3Es0wU0xi>
- Prideaux, B. (2000). The role of the transport system in destination development. *Tourism Management*, 21(1), 53-63.
- Rayner, T. (2014). *RIP low-cost Uber in Sydney: NSW Government doesn't budge*. Retrieved 1 October 2014 from <http://www.techly.com.au/2014/04/30/rip-low-cost-uber-sydney-nsw-government-doesnt-budge/>
- Robertson, T. S. (1967). The process of innovation and the diffusion of innovation. *Journal of Marketing*, 31(1), 14-19.
- Rogers, E. M., (1962). *Diffusion of Innovations*. New York: Free Press.
- Santos, J., & Boote, J. (2003). A theoretical exploration and model of consumer expectations, post-purchase affective states and affective behaviour. *Journal of Consumer Behaviour*, 3(2), 142-156.
- Schmidt, G. M., & Druehl, C. T. (2008). When is a disruptive innovation disruptive? *Journal of Product Innovation Management*, 25(4), 347-269.
- Scott, M., & Eddy, M. (2014). *German court bans Uber service countrywide*. Retrieved 1 October 2014 from [http://bits.blogs.nytimes.com/2014/09/02/uber-banned-across-germany-by-frankfurt-court/?\\_php=true&\\_type=blogs&\\_r=0](http://bits.blogs.nytimes.com/2014/09/02/uber-banned-across-germany-by-frankfurt-court/?_php=true&_type=blogs&_r=0)
- Thompson, V. A. (1965). Bureaucracy and innovation. *Administrative Science Quarterly*, 10(1), 1-20.
- Uber (2014). *Where is Uber currently available?* Retrieved 1 October 2014 from <https://www.uber.com/cities>
- Valente, T. W., & Rogers, E. M. (1995). The origins and development of the diffusion of innovations paradigm as an example of scientific growth. *Science Communication*, 16(3), 242-273.
- Van de Ven, A. H. (1986). Central problems in the management of innovation. *Management Science*, 32(5), 590-607.
- Varis, M., & Littunen, H. (2010). Types of innovation, sources of information and performance in entrepreneurial SMEs. *European Journal of Innovation Management*, 13(2), 128-154.



- Wang, D., Xiang, Z., & Fesenmaier, D. R. (2014). Adapting to the mobile world: A model of smartphone use. *Annals of Tourism Research*, 48(Sep), 11-26.
- Watson, L., & Spence, M. T. (2007). Causes and consequences of emotions on consumer behaviour: A review and integrative cognitive appraisal theory. *European Journal of Marketing*, 41(5-6), 487-511.
- West, M. A., & Anderson, N. R., (1996). Innovation in top management teams. *Journal of Applied Psychology*, 81(6), 680-603.
- Wong, A., Tjosvold, D., & Liu, C. (2009). Innovation by teams in Shanghai, China: Cooperative goals for group confidence and persistence. *British Journal of Management*, 20(2), 238-251.
- Yu, D., & Hang, C. C. (2010). A reflective review of disruptive innovation theory. *International Journal of Management Reviews*, 12(4), 435-452.