Cornerstone Capital Group

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Flash Commentary

Uber: Red Light, Green Light

The decision by New York City to drop a proposed bill that would limit growth of for-hire vehicle (FHV) companies – such as Uber and Lyft - attracted significant media attention. Based on prior analysis, we reiterate our view that the status of providers (i.e., employees versus independent contractors) poses a greater risk to FHV companies.

The proposed bill, backed by Mayor Bill de Blasio and designed to address traffic congestion, would have capped vehicle growth to 1% annually for FHV companies with 500 or more vehicles. The cap would have been in place through April 2016 while the city studied FHVs' impact on traffic.

While the agreement is positive for Uber, it doesn't entirely alleviate the risk of regulatory action against the company. NYC is now conducting a four-month study of congestion and air pollution, implying the issue could resurface upon the study's completion. As part of the agreement, Uber is releasing data about its operations in the city, a significant move for a company that's been notoriously secretive about sharing ride data. It has also agreed to maintain its current rate of driver growth of around 3% per month.

Uber's agreement with NYC comes on the heels of another regulatory challenge in which the California Labor Commissioner said that a driver for Uber should be classified as an employee, not an independent contractor. Uber had to reimburse the driver for expenses and other costs incurred while working as an Uber driver. Uber is appealing the decision.

We acknowledge that politics are at play, and the outcomes of such situations are particularly difficult to forecast. To assess the significance of these events, we reference our Distributed Marketplace Company (DMC) taxonomy (Figure 1), which helps investors identify the salient characteristics and key relationships in the distributed marketplace in order to evaluate the opportunities and risks associated with each company.

Figure 1: Distributed marketplace taxonomy

Resource:	Assets	↔	Labor
Purpose:	Cooperative	↔	For-profit
Regulatory framework:	Clarity	↔	Ambiguity
Business model:	Pioneer	↔	Disruptor
Provider status:	Amateur	↔	Professional
	Autonomous	↔	Directed
Provider's potential geographic reach:	Global	↔	Local
	Distributed marketplace company characteristics		

Source: Cornerstone Capital Group

Assets vs. Labor

As it pertains to the aforementioned regulatory issues, we note that Uber (and other FHV companies) is leveraging both underutilized assets and labor. Uber's issues in New York are primarily related to assets while its issues in California are related to labor.

Asset-based services create value by allowing consumers to have access to an item (i.e. ride-sharing service) without the need for ownership and to defray the cost of ownership for providers (drivers). Asset-based services also appeal to those who value more efficient use of natural resources for environmental or other reasons.

Uber and other FHV companies are increasing utilization rates of existing vehicles, but they're also attracting new drivers, thereby increasing the number of vehicles on the road. This is directly related to NYC's concern about increased traffic, congestion, and air pollution.

Labor-based services take advantage of a weak, inefficient or undervalued labor market to enable both providers and consumers to make more deliberate choices regarding the trade-off between time and money. In addition, many advocates highlight the desirability of flexible work hours for some providers such as Uber.

One of the inherent risks of labor-based services is the status of providers

However, one of the inherent risks of labor-based services is the status of providers - a risk that was realized when California challenged Uber's assertion that its drivers are independent contractors. Classifying drivers as employees instead of independent contractors likely increases costs for Uber. As highlighted in our report on DMCs, this is problematic given that a material compensation benefit doesn't exist for Uber drivers once expenses and taxes are taken into account. In the face of higher costs, we question whether Uber could take a larger share of gross receipts without jeopardizing its ability to attract drivers to its platform.

For more information, see our Flagship Report, "Dissecting the 'Sharing Economy': Business model opportunities and risks," dated June 9, 2015.

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