

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : *Answer ALL Questions.*

1. Read the following case study and answer the questions given at the end :

In March 2009, Travis Kalanick and Garrett Camp started a set up named Ubercab. By March 2010, the car hailing business took off as an app to register premium cars. In October 2010 the company changed its name to UBER. As the company grew, it faced several hurdles. Despite facing stiff regulatory opposition in many countries, UBER believed that the company had helped strengthen local economics of markets, improved access to transportation and made streets safer. Over the years, UBER grew into a personal car service that had disrupted taxi and transportation companies around the world and became a part of freshly evolved concept of the ride-sharing economy. The company had adapted and enhanced its mobile application and service offerings over time to support international growth. Uber mission statement, “make transportation as reliable as running water, everywhere, for everyone” was focused on making commuting easy for everyone across cities. By April, 2014, Uber was serving more than 100 cities from across the world. Among many target countries, Kalanick was very interested in China and wanted to handle this market himself.

The Promises and Pitfalls of China :

In August 2015, the American Chamber of Commerce in China conducted a survey and found that only 25 per cent of its members in the service sector including banks, restaurants and companies such as Uber were optimistic about the regulatory environment in China. The survey found that respondents were worried about the uncertainties associated with regulations passed by the Chinese Government. It found that Chinese markets were so difficult that often multinationals ended up selling out to local partners. The high chances of failure of Western companies operating in China could be attributed to unique market, which offered tough local competition and unexpected laws and regulations.

Uber's Entry in China.

China had been attracting many MNCs from across the world and ride-sharing provides were no exception. The huge size and success of China's ride sharing economy attracted many other companies to come to the country.

Uber's attraction to Chinese market could be attributed to the growing demand for transportation in China's congested and populated cities which required immediate solutions. Motor vehicle emissions had become a major cause of air pollution in the country.

Analysts believed that China had complex political structures, legal systems and regulatory rules and financial markets and banking system were relatively underdeveloped than those in the West. All these factors made it difficult for Western firms to operate in China in the same way as at home. Further, the taste of Chinese consumers was so different from Westerners that foreign companies had to adapt products and services to meet the specific needs of Chinese customers.

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While deciding on which city to choose to launch its services, Uber focused on cities with heavy traffic and imbalanced supply and demand. Uber's entry strategy for Chinese markets was considered a relatively low-key affair. The strategy ensured the localization of services, which was important to the Chinese market.

In February 2014, Uber made a formal launch in China with the introduction of luxury car services in three Chinese cities Shanghai, Guanzhou and Shenzhen. Kalanick himself took over the role of Chief Executive in China.

Uber's strategies in China.

Soon after entering China, Uber adjusted and adapted its strategies to meet the needs and trends of Chinese markets. In general, Uber's business model relied mainly on being the first entrant to a market, and then rapidly scaling up to put its competitors at a disadvantage to the point of a forced exit. Thus, being first to a market, it offered subsidies to drivers and cheap rides to passengers and generated a rapid scale.

Establishing a separate entity

While entering China, Uber decided on a strategy that was unlike anything it had tried anywhere else. It separated its Chinese entity—Uber China. Setting up a separate subsidiary helped Uber invite local investors along with getting financial. Further, it was believed that becoming a Chinese company would help and it would also avoid many restrictions faced by foreign companies operating in China.

Adaption Strategies :

Alipay was the most common payment method used in China which Uber adapted. Uber had been offering only an English language app across all its markets. However, before the formal launch in China, Uber's IOS app was updated to add simplified Chinese features.

It introduced a Chinese language app called You-bu to attract local drivers and passengers. In a bid to crack Chinese market, Uber China distinguished itself from its competitors with high-quality cars and a streamlined interface. It tried to attract Chinese clients during special events similar to the ones the company was doing in the USA.

The game of subsidies

June 2014, it initiated aggressive expansion in China and launched another line of economic services, Uber X. In August 2014, it launched People's Uber, which operated on a not-for-profit basis. Considering the fierce competition in the Chinese market, Uber started aggressively attracting drivers and paid its drivers a multiple of passenger's fare.

Local Investment and partnership

In March 2015, the company signed a strategic co-operation agreement with a Chinese automobile company, Yongda Auto, which became its first car dealer partner in China. In April 2015, Uber entered into another strategic partnership with the world's largest wireline communications—CDMA mobile network and broadband internet-services provider of China. Another collaboration of Uber China happened in September 2015, when it signed a strategic co-operation agreement with National Centre of ITS Engineering and Technology, ITSC of China.

The bumpy ride of Uber China

Despite its localization strategies and adaption to the Chinese system, Uber China was still finding it hard to operate in the Chinese market. There were many factors, which obstructed Uber's growth in China, including fierce competition by local taxi-hailing and ride-sharing apps, protests from irritated cabbies, government raids and police crackdowns.

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Intense local competition

Uber China had two competitors in China, namely, Didi Dache and Kuaidi Dache, which occupied the biggest chunk of the market share of the country's taxi hailing market. As a pioneer in China, the two local competitors had an advantage over Uber in reaching wider areas. Uber's strategy/ies to acquire more market share in China failed to outperform Didi. Even after initial year of rapid growth, Uber China was operating only in 60 cities and served 40 million rides per week against Didi's presence in more than 400 Chinese cities covering 100 million journey per week.

Scammers

The local competition was something which Uber always knew it had to face in China but it also had to struggle with the threat of scammers and frauds. Given the fact that China had been the home to many ride hailing scams, drivers and hackers exploited ride-sharing companies to get extra subsidies without driving any one any place at all. These scammers often created fake passenger accounts for taking a ride with a driver who received bonus.

Mounting losses :

Though by June 2016, China had become the largest market of Uber and accounted for more than a third of its global business in terms of weekly trips, the company was losing more money in China than any of other market in the world. By offering large discounts on trips, Uber's performance became unsustainable in the long run.

Complicated status of Uber China :

Uber was technically not illegal in China yet many Chinese drivers believed it was illegal. The company also experienced occasional police raids. The drivers while taking rides near train stations and other popular destinations had to look out for police waiting to detain them. The unclear status of Uber and police crackdowns posed big obstacles for the company to operate in China.

Growing protest against Uber :

Another prominent problem for Uber China was protests and strikes by traditional cab drivers of the country. There were increasing number of incidents of attack on Uber drivers by traditional taxi drivers.

China's National Regulation :

The nationalization of industry regulation was bad news for companies such as Uber. The Chinese government announced a new set of rules governing the ride hailing industry of China. The national regulations gave more powers to local authorities who were free to place any additional requirements on vehicles. Differences in the culture and regulatory system of China and the USA made it difficult for Uber to fit into the Chinese system.

Being a Foreign Company :

Kalarick made efforts to cultivate political relationship in China and paid frequent visits to the country. However for Western companies, it was always a challenge to expand in China given that local companies had an advantage in the country's cultural, economic and political environment. Foreign companies such as Uber were subjected to tougher regulations than local players.

The exit :

Amidst fierce competition and unfavourable national regulations passed by the government of China, Uber China finally surrendered in the country. On Aug. 2016, the regional subsidiary of Uber announced its merger with its biggest and major rival in the country—Didi in a mega-merger of \$ 35 bn.

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The terms of agreement suggested not only a financial transaction but also strategic alliance with Kalanick taking a seat at the board of Didi and Didi founder, Cheng Wei, joining the board of Uber. Many believed that the merger would be beneficial for both Didi and Uber. It was believed that the Uber-Didi deal had provided a graceful exit for Uber with it getting the best out of a bad situation.

Way forward :

Though some industry experts believed that Uber China exit was mostly bad news, Kalanick was optimistic about the future of Uber. But Uber's problems in China did not end with its merger with Didi. In September 2016, some of the Uber drivers in China were using zombie like profile pictures to scare customers who ended up cancelling their rides. As Uber was in transition after merger deal, it could not handle frauds making it an easy target of scammers. Further China's Ministry of Commerce opened an anti-trust investigation into Didi-Uber deal after it received complaints that the Uber-Didi merger deal did not follow the country's anti-monopoly laws. Though there were many challenges that China posed against Uber, there were certainly many lessons that company learned from its journey to China.

Questions :

- (i) Access the internal and external business environment faced by Uber in China, using Michael Parker's Five forces model.
- (ii) Discuss Uber's situation analysis with the help of PESTEL MODEL.
- (iii) What strategy did Uber follow ? How did it adapt its strategy to survive and thrive in Chinese market.
- (iv) What were the take-aways from Uber's journey in China ?
- (v) Did Uber do the right thing to exit from the market ? Should Uber have persisted and continued its operations ? Give reasons.

(10 marks each)

2. (a) Strategic alliances often fail due to their inherent conflict. Discuss. (5 marks)
- (b) A company without global aspirations will also fail in domestic market in the long run. Comment. (5 marks)
- (c) What is Global Competitiveness Index ? Do you agree that the twelve pillars of competitiveness support each other ? (1+4=5 marks)
- (d) Do you agree that arbitration is an important tool to end commercial dispute ? (5 marks)
- (e) Distinguish between 'factoring' and 'forfaiting' in export management. (5 marks)
- (f) Is a Letter of Credit (LC) a secure financial instrument in international trade ? Discuss. (5 marks)
3. Highlight the role of UNCTD in promoting international trade. (5 marks)
4. Special Economic Zones (SEZs) are engines of economic growth. Discuss. (5 marks)
5. Discuss the role of TRIPS in protecting intellectual rights. (5 marks)
6. Logistic management is the process of putting 'right product', in 'right quantity' at 'right place' at 'right-time' with 'right-cost'. Elaborate the statement. (5 marks)