

Sharing Economy

Uber will be a survivor after COVID-19

MarketLine Analyst Insight

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1. Overview

1.1. Catalyst

Uber and Airbnb, two of the largest and most influential players in the sharing economy, will be in the spotlight over the coming months as they deal with COVID-19 lockdowns around the world. Of these two, Uber is widely expected to survive thanks to its parallel food delivery business, whilst Airbnb will have no way to diversify. Uber's strategy going forwards will indeed be increasingly dependent on food delivery, but it would be short-sighted to say that hope was lost for its shared mobility business. The pandemic could in fact change consumer behavior in a way which benefits ridesharing in the long term.

1.2. Summary

Uber's Eats delivery platform will keep the company afloat through the COVID-19 lockdown. Eats has been built on takeout deliveries from restaurants, and this is an area where demand is expected to have increased during the lockdown. However, the area with the most potential both during the lockdown and beyond it is grocery delivery.

Uber has already launched grocery deliveries in several new markets during the lockdown in response to the threat to its ridesharing business, but also to seize an abundant opportunity. The company also touts vehicle automation and air travel as the future of its offering, but these are very long-term bets. A more immediate first step to bridging the yawning gap between the current model and the future will be shared rides. This was already a growing target segment for Uber, and COVID-19 will now play a role in influencing the mid-term and long-term opportunities. Uber has the infrastructure and the cash to continue being an influencer in the segment, with control over its fleet and ambitions to work with the public sector.

Table of Contents

1. OVERVIEW	1
1.1. Catalyst	1
1.2. Summary	1
2. THE MAJOR BREAKTHROUGH MARKETS FOR UBER WILL BE GROCERY DELIVERY AND CARPOOLING	1
2.1. Uber is prepared for change with its Eats business	1
2.2. Food delivery in the sharing economy was already big business	2
2.3. Long-term prospects for mobility will come from shared rides	2
2.4. COVID-19 will influence mid-term and long-term opportunities	2
2.5. Uber has the infrastructure and the cash to continue being an influencer	3
3. APPENDIX	4
3.1. Further reading	4
4. ASK THE ANALYST	4
5. ABOUT MARKETLINE	4

List of Figures

Figure 1: COVID-19's disruption to sectors of the sharing economy, with selected leading companies	1
Figure 2: Spacious prototype design for a shared Uber vehicle	3

List of Tables

No table of figures entries found.

2. The major breakthrough markets for Uber will be grocery delivery and carpooling

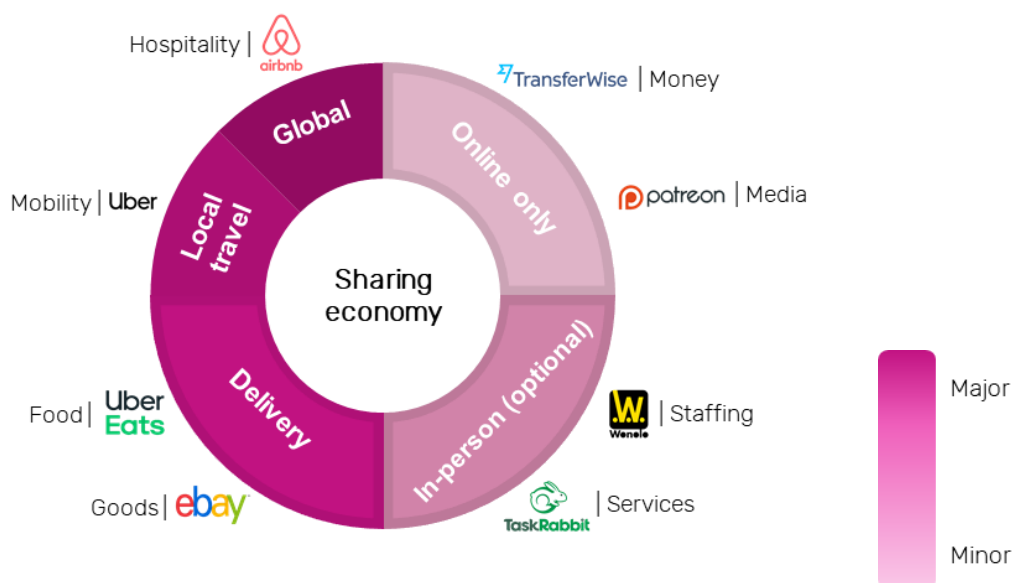
Uber and Airbnb, the largest and most influential players in shared mobility and shared hospitality respectively, will be in the spotlight over the coming months as they deal with COVID-19 lockdowns around the world. Of these two, Uber is widely expected to survive thanks to its parallel food delivery business, whilst Airbnb will have no way to diversify. Uber's strategy going forwards will indeed be increasingly dependent on food delivery, but it would be short-sighted to say that hope was lost for its shared mobility business. The pandemic could in fact change consumer behavior in a way which benefits ridesharing in the long term.

2.1. Uber is prepared for change with its Eats business

The lockdowns brought in around the world to combat the spread of COVID-19 have had a devastating impact on two of the fastest-growing sectors of the sharing economy. Shared hospitality and shared mobility have been badly hit due to their dependence on travel and in-person interactions. Sectors like shared goods and peer-to-peer financing, meanwhile, which generally confine transactions to their online platforms, are unlikely to see social distancing rules deterring their users. Luckily for shared mobility platforms, the switch from transporting people to transporting goods is only slight.

Uber's Eats delivery platform has built its business on takeout deliveries from restaurants. This is an area where demand is expected to have increased during the lockdown; whilst there is no official data yet to measure this, eating out has effectively been substituted by takeout food. However, the area with the most potential both during the lockdown and beyond it is grocery delivery. This is a fast-growing section of shared logistics, and one where Uber is actually catching up to other pioneers.

Figure 1: COVID-19's disruption to sectors of the sharing economy, with selected leading companies



Source: Company websites

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2.2. Food delivery in the sharing economy was already big business

Grocery delivery is a diverse and global playing field, where Uber's mobility-first business is competing with delivery-first startups on their home turf, which often has far greater demand than its own primary markets. East Asian countries and others with emerging economies and rapid rates of urbanization are particularly fertile markets where Uber can hone its own offering. The global competitors range from Rappi in Colombia to Mercadão in Portugal and Thailand's GrabFresh. Rappi and GrabFresh are expanding aggressively into their neighboring markets. There is also a stimulus to innovate in Uber's non-US markets from its competitor Deliveroo, which has recently received investment from Amazon to further its grocery offering.

The COVID-19 lockdown has the potential to elevate demand for grocery delivery on two fronts, both during and after the lockdown. Firstly, the risk to consumers of going to grocery stores in lockdown has led to a surge in online orders, and the stores' last-mile delivery systems have been unable to cope. As virtual queues continue to back up for hours online, consumers have gradually turned to the grocery tab on their Uber apps, as well as going to other sharing economy platforms. Secondly, the surge will also convert first-time users to online groceries whose behavior after the lockdown could be changed forever. Grocery delivery in Uber's primary markets will effectively undergo a massive marketing exercise that will ensure at least some long-term growth.

Uber has already launched grocery deliveries in several new markets during the lockdown in response to the threat to its ridesharing business, but also to seize the abundant opportunity. It is also worth considering the uncertain reality of lockdown exit strategies around the world. Numerous countries may yet continue with limitations to people's movements after full lockdown is over, as long as an absolute, long-term solution to the pandemic remains elusive. More extensive use of grocery delivery could well play a part in this scenario going forwards.

2.3. Long-term prospects for mobility will come from shared rides

Uber's shared mobility offering has been its primary contribution, and it is the global leader in this sector. The company enthusiastically touts vehicle automation and air travel as the future of the offering, but these are very long-term bets.

A more immediate first step to bridging the yawning gap between the current model and the future will be shared rides. The company has made it clear in investor presentations and marketing that these are to be an intrinsic part of a green and financially feasible automated future. Shared rides are also of course more faithful to the aspirational values of Uber and many of its peers. That is, that consumption in the sharing economy should actually be 'shared', entailing cost-effectiveness and ecological benefits. In the words of Uber's CEO, "Transportation has to be shared, it has to be electric, and it has to be in three dimensions". The last point ties the company's immediate goals directly to its aviation ambitions.

2.4. COVID-19 will influence mid-term and long-term opportunities

The lockdown and post-pandemic scenarios could bring demand for shared rides from various directions. First there is the environmental case that Uber has made for shared mobility time and again, which will become even more pressing after the lockdown. The reduction of traffic has led to improvements in air quality and lower carbon emissions in cities around the world. Consumers have not only seen how the environment is affected by their use of cars, but will also have exposed the costs of running a car privately.

In addition, there will be the increasing popularity of shared mobility in new or previously infrequent use-cases like commuting. Even after the lockdown, public transport will be seen as a high-risk means of travel, especially in busy urban hubs. National exit strategies are again a factor here, since large commuter groups pose a considerable obstacle to the intelligent tracking and testing systems being developed by governments as long-term solutions. Uber has a clear enthusiasm to work with the public sector to advance its shared mobility ambitions, as demonstrated by Uber Movement's collaborations with local government and urban planners. Urban planners who were already looking for ways to maximize shared travel in response to the climate emergency now have an added incentive in the long-term management of COVID-19.

2.5. Uber has the infrastructure and the cash to continue being an influencer

Carpooling services like BlaBlaCar have already gained market share in some cities around the world, offering a platform where commuters can hitch lifts with each other, rather than with dedicated drivers. The discomfort of sharing a car with strangers and the unreliability of routes are not limitations for the majority of users who commute using these platforms in place of public transport. Still, with control over its fleet Uber could easily design cars with more space and comfort (see Figure 2) and reliable coverage of popular routes to lock into this market. In its first results presentation of 2020 the company cited an 800bps increase in the take rate for its ridesharing option around the world, making them a relatively fast-growing segment.

In response to investor panic Uber's CEO has pointed to the company's \$10bn in cash to see it through the pandemic. Many of its drivers are off the roads, and sharing rides is currently the last thing users want to do. But after delivery has got the company through the lockdown stage, the new kinds of demand the company has been betting on in the shared mobility sector will only come faster than before.

Figure 2: Spacious prototype design for a shared Uber vehicle



Source: Uber

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3. Appendix

3.1. Further reading

Coronavirus: Executive Briefing – MarketLine Report Series

Food and Grocery Retail – MarketLine, Industry Profile

Automotive Industry Themes – MarketLine, Theme Report

Drones to transform food delivery – MarketLine, Case Study

4. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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